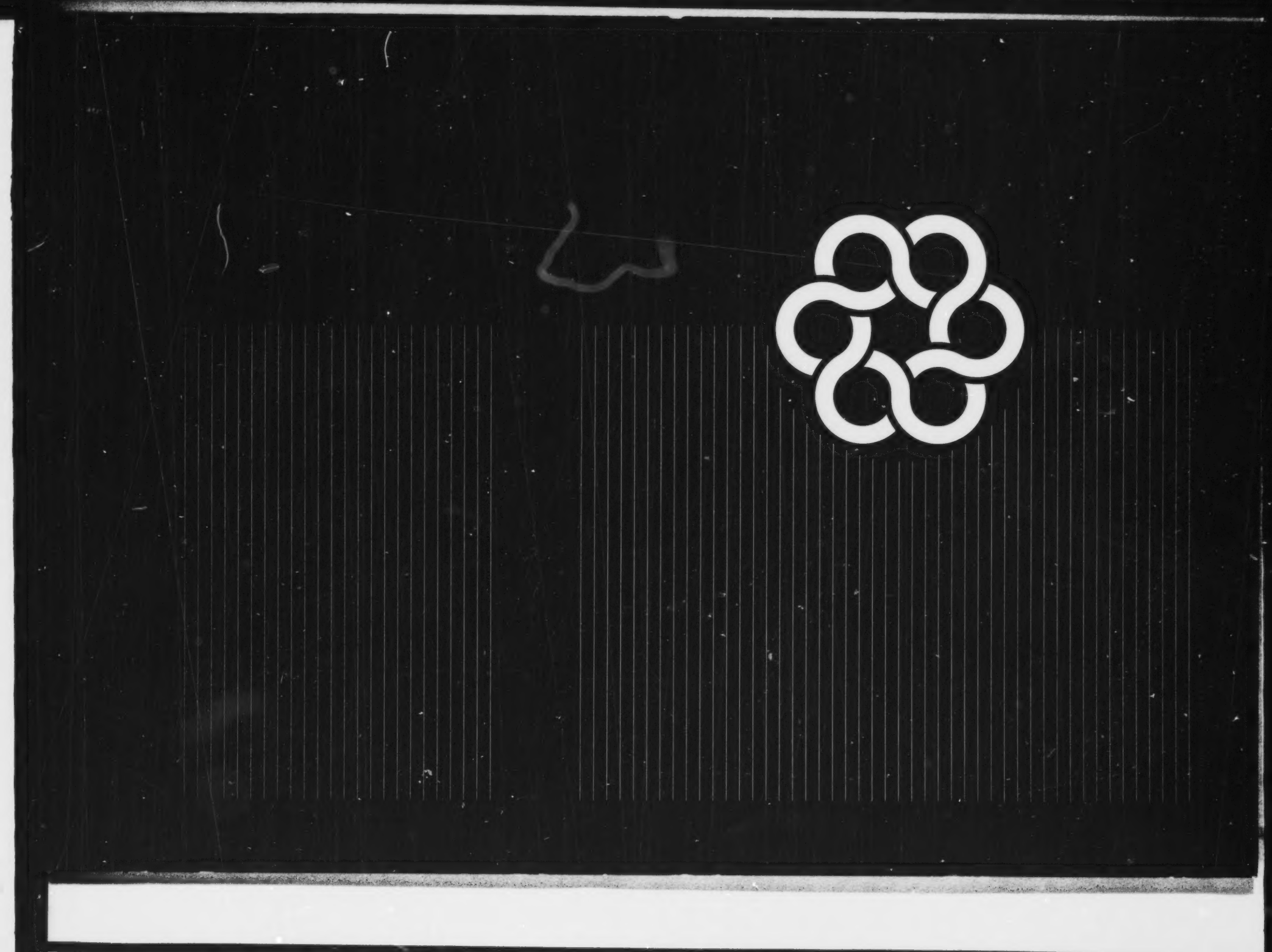

1985 Annual Report of the Commissioner of Finance

Satellite infrared image of Southern Ontario depicting the blue expanse of Lake Ontario with the Metropolitan Toronto Area (outlined in black) situated on its north shore.

The Municipality of Metropolitan Toronto, which extends 40 km along the lakeshore and to a depth of 16 km inland, forms the nucleus of the "Golden Horseshoe" — a continuous zone of heavily populated, industrialized cities clustered around the western Lake Ontario shore.

The City of Buffalo, New York, adjoins Lake Erie (bottom right corner); to its north lies the Niagara Region and the internationally acclaimed Niagara Falls.

The centre of an extensive and diverse manufacturing, retailing, transportation and financial system, Metro Toronto remains the nation's business capital and the financial and corporate centre of Canada.

Quan Quan — one of two giant Chinese Pandas that delighted visitors to the Metro Toronto Zoo during their 100-day stay in the summer of 1985.

"Swan Lake" — staged by The National Ballet of Canada at Metro Toronto's O'Keefe Centre for the Performing Arts. "The O'Keefe" marked its 25th anniversary in 1985 and continues to play a significant role in Metro Toronto's cultural spectrum.

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THE METROPOLITAN COUNCIL

***Chairman** Dennis Flynn

City of Toronto

*Mayor	Arthur Eggleton
*Alderman	Frederick Beavis
Alderman	Joanne Campbell
Alderman	Richard Gilbert
Alderman	Ben Grys
Alderman	Ying Hope
Alderman	Thomas Jakobek
Alderman	Anne Johnston
Alderman	Jack Layton
*Alderman	Tony O'Donohue
*Alderman	June Rowlands
Alderman	Derwyn Shea

City of North York

*Mayor	Mel Lastman
*Controller	Barbara Greene
*Controller	Esther Shiner
Controller	William Sutherland
Controller	Robert Yuill
Alderman	Milton Berger
Alderman	Andrew Borins
	James McGuffin (Effective April 22, 1985)
Alderman	Irving Chapley
Alderman	Mario Gentile
Alderman	Betty Sutherland

City of Scarborough

*Mayor	Gus Harris
Controller	Frank Faubert
Controller	Ed Fulton
	Bill Belfontaine (Effective June 17, 1985)
*Controller	Ken Morrish
Controller	Joyce Trimmer
Alderman	Florence Cruickshank
Alderman	Maureen Prinsloo

City of Etobicoke

*Mayor	Bruce Sinclair
Controller	Leonard Braithwaite
*Controller	Lois Griffin
Controller	Dick O'Brien
Controller	Chris Stockwell

City of York

*Mayor	Alan Tonks
Controller	Fergy Brown
Controller	Philip White

Borough of East York

*Mayor	David Johnson
Alderman	Peter Oyler

*Member of the Metropolitan Executive Committee.

C. DENNIS FLYNN
Chairman — Metropolitan Council

Metropolitan Toronto Treasury Department — Senior Management (from left to right: J. W. Peat, Deputy Treasurer, R. F. Gibbs, Director — Funded Debt and Investments, J. L. Pickard, Commissioner, M. A. Brooks, Director — Accounting, C. J. White, Director — Budget Analysis and Internal Control)

HEADS OF METROPOLITAN DEPARTMENTS

A. G. Andrews	Metropolitan Auditor
R. J. Bower	Commissioner, Planning
R. G. Bundy	Commissioner, Parks & Property
S. Cass	Commissioner, Roads & Traffic
J. H. Dean	Commissioner, Ambulance Services
A. J. De Gagné	Commissioner, Management Services
D. E. Richmond	Commissioner, Management Services (Effective May 14, 1985)
P. Ferguson	Commissioner, Personnel
F. J. Horgan	Commissioner, Works
A. P. G. Joy	Metropolitan Solicitor
J. P. Kruger	Chief Administrative Officer
D. E. Richmond	Chief Administrative Officer (Effective November 8, 1985)
W. J. Lotto	Metropolitan Clerk
J. R. Picherack	Commissioner, Community Services
J. L. Pickard	Commissioner, Finance and Treasurer

HEADS OF METROPOLITAN BOARDS, COMMISSIONS AND AGENCIES

J. Marks	Chief of Police
R. D. Barbaro	Interim General Director, Metropolitan Toronto Zoo
C. Ruddell-Foster	General Manager, Licensing Commission
C. Brown	Director and Secretary-Treasurer, Metropolitan Toronto School Board
C. F. Cutts	General Manager, O'Keefe Centre for the Performing Arts
M. Mooney	General Manager, The Guild
D. Meadows	Director, Metropolitan Toronto Library Board
D. Richmond	General Manager, Metropolitan Toronto Housing Co., Ltd.
A. H. Savage	Chief General Manager, Toronto Transit Commission
W. Stockwell	Chief General Manager, Exhibition Place

ORGANIZATIONAL STRUCTURE

The Municipality of Metropolitan Toronto is governed by a forty-member Metropolitan Council, composed of a Chairman (elected by the members of Council) and senior elected members of the local municipalities.

The Metropolitan Council is supported in the decision-making process by the Executive Committee (composed of the Metropolitan Chairman and thirteen appointed Council members) and six Standing Committees (each composed of seven Council members). The Standing Committees consider, in detail, a wide variety of matters and make recommendations thereon, through the Executive Committee, to the full Metropolitan Council.

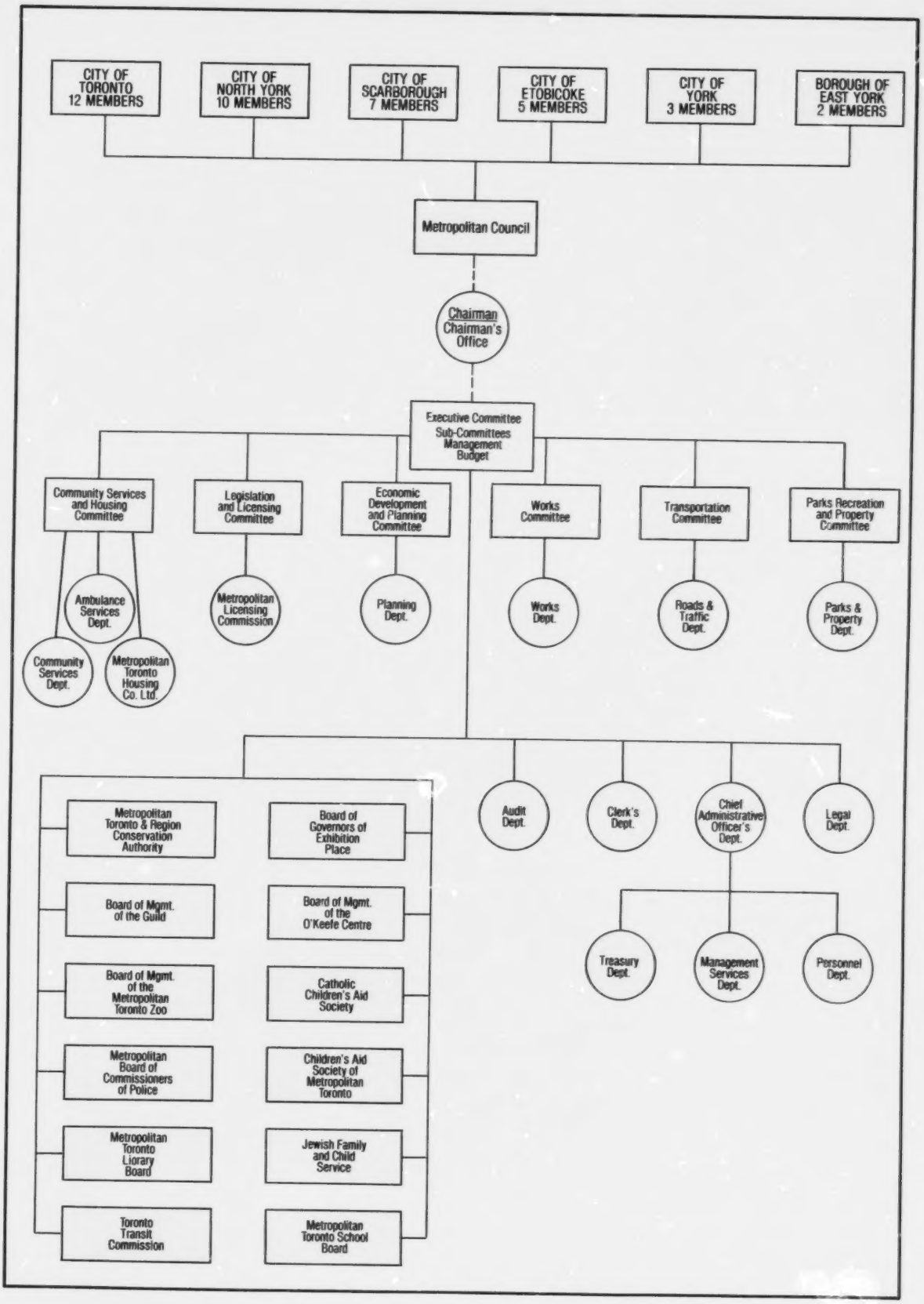
The operation of services for which Metropolitan Toronto is responsible are administered by a support staff composed of fourteen Metropolitan Departments, and various Boards, Commissions and Agencies.

Metropolitan Departments provide operational and support services as follows:

Operational Services	Support Services
Ambulance	Audit
Community Services	Chairman's Office
— Children's Services	Chief Administrative Officer
— Homes for the Aged	Clerk's
— Social Services	Legal
— Housing	Management Services
Parks and Property	Personnel
Planning	Treasury
Roads and Traffic	
Works	

Other Metropolitan Toronto services are administered, through Metropolitan Council, by the various Boards, Commissions and Agencies.

ORGANIZATIONAL CHART



JOHN L. PICKARD, B. Comm., F.C.A.
Commissioner of Finance and Treasurer

The Municipality of
Metropolitan Toronto

Treasury Department
City Hall, West Tower, 10th Floor
Toronto, Ontario, Canada M5H 2N1

John L. Pickard, B.Com., F.C.A.
Commissioner of Finance and Treasurer

J. W. Peat, I.P.F.A., F.C.C.A.
Director of Financial Services and Deputy Treasurer

I am pleased to present the Annual Financial Report of the Municipality of Metropolitan Toronto for 1985 and to highlight some of the more significant financial and economic activities and events which occurred during that year.

INTRODUCTORY

GENERAL

The Municipality of Metropolitan Toronto was incorporated in 1953 as a regional government by an act of the Province of Ontario. Located on the north shore of Lake Ontario, it consists of six area municipalities, namely, the Cities of Toronto, North York, Scarborough, Etobicoke and York and the Borough of East York. The Metropolitan Toronto Area covers 632 square kilometres, extending 40 kilometres along the north shore of Lake Ontario and 16 kilometres inland.

The Metropolitan Area had a population of 2,145,900 at December 31, 1985, which represented approximately 8% of the population of Canada and 25% of the population of Ontario. The following table sets forth the estimated population of each of the Area Municipalities at such date:

	Population	% of Total
City of Toronto	598,402	27.9
City of North York	554,450	25.8
City of Scarborough	463,278	21.6
City of Etobicoke	298,359	13.9
City of York	133,736	6.2
Borough of East York	97,675	4.6
	2,145,900	100.0

Metropolitan Toronto was the first community in North America to adopt a regional federation of municipalities as a concept and a structure for local government. The governing principle of the Metropolitan Corporation is that certain services common to the entire Metropolitan Area are the responsibility of the Metropolitan Corporation while, on the other hand, services of a more local nature are the responsibility of the individual Area Municipalities. This principle recognizes the need to unify those functions common to the whole Metropolitan Area which, in the interest of economy, effectiveness, and efficiency should not be fragmented, while at the same time allowing for local administration in matters of local concern.

In general, responsibilities are divided between the Metropolitan Corporation and the Area Municipalities depending on whether such function has been defined as "area-wide" or "local" in scope. Some examples of the exclusive responsibilities of each are:

Metropolitan Corporation	**Area Municipalities**
police protection	fire protection
regional roads and expressways	local streets
public transit	garbage collection
solid waste disposal	local and neighbourhood parks
water pollution control	local parking lots
water supply	administration of civic elections
ambulance services	collection of property taxes
social services	
elderly persons' housing	
regional parks	
development control	

Except for the issuance of debentures and levying on the Area Municipalities, the operation, financing and administration of the primary and secondary education system in the Metropolitan Area are the responsibility of school boards which are independent of the Metropolitan Corporation and the Area Municipalities.

ADMINISTRATIVE AND POLITICAL STRUCTURE

The Metropolitan Council, in exercising the legislative powers of the Metropolitan Corporation, approves policy and authorizes the raising of revenues and the expending of funds for the provision of services. It is composed of 40 members: the Chairman, twelve representatives from the City of Toronto, ten from the City of North York, seven from the City of Scarborough, five from the City of Etobicoke, three from the City of York and two from the Borough of East York. With the exception of the Chairman, Council members hold office by virtue of their elections to the Area Municipality councils. The Chairman is elected by members of Council from among or outside its members. Both the Chairman and the members of the Council have the same three year term. The term of the present Council expires November 30, 1988.

The 14 member Executive Committee of the Council, as the chief administrative body of the Metropolitan Corporation, is responsible for the preparation and presentation of the annual estimates of revenues and expenditures and reporting to the Council on the operations of the Metropolitan Corporation and its local boards, commissions and agencies.

The organizational structure of the Metropolitan Toronto government is explained in further detail in the schematic presentation on page 11.

FINANCIAL STRUCTURE

The Metropolitan Corporation's principal sources of revenues are levies against the Area Municipalities, grants from the Province of Ontario, user charges arising from municipal services and certain other miscellaneous revenues. Its operations may be classified into three groupings, according to the different bases on which they are financed:

General Purpose requirements, which include all Metropolitan departments, boards, commissions and agencies (except Water Supply) are financed from a

general levy on constituent area municipalities, Provincial grants and other sundry and program-generated revenues.

Education requirements for elementary and secondary educational programs administered by the Metropolitan Toronto School Board are financed from an education levy on constituent area municipalities, Provincial grants and other sundry revenues.

Water Supply requirements of the Water Supply Division of the Metropolitan Works Department, an entirely self-sustaining operation, are financed from the sale of water to constituent area municipalities (and one adjoining Regional Municipality by formal agreement) and from other sundry revenues.

AUTHORITY TO BORROW

Debenture debt

The Municipality of Metropolitan Toronto has the sole statutory responsibility for borrowing money by the issuance of debentures for its own account, its local boards and municipal enterprises and on behalf of its area municipalities and their local boards and municipal enterprises. The local boards and municipal enterprises of the Municipality include the Metropolitan Water Supply System, the Toronto Transit Commission and the Metropolitan Toronto School Board. Where money is borrowed, or debt assumed on behalf of other bodies, repayment of the related debt servicing requirements is made by these bodies to the Municipality.

All debentures issued by the Metropolitan Corporation are direct, joint and several obligations of the Metropolitan Corporation and the Area Municipalities.

Short term debt

Provincial legislation restricts short term borrowing by the Metropolitan Corporation for current purposes during any year to 70 per cent of the total amount of estimated revenues as set forth in the estimates adopted for the year. Until such estimates are adopted, the borrowing limit shall temporarily be calculated upon the estimated revenues as set forth in the estimates adopted for the next preceding year.

EDUCATION

The responsibility for the operation and financing of the non-denominational elementary and secondary school system in the Metropolitan Area rests with the Metropolitan Toronto School Board ("M.T.S.B.") while the actual administration of the schools is the responsibility of the local school boards of the six individual Area Municipalities. The M.T.S.B. is required to provide the local area municipality school boards with the total funds necessary to provide an educational program throughout the Metropolitan Area, having regard to each Area Municipality's varying needs. The approved net requirements, including debt service, of the six school boards together with the estimates for the M.T.S.B.'s own purposes are combined into a composite budget to determine the Metropolitan levy for education purposes each year. The funds required by the M.T.S.B. are requisitioned from the Metropolitan Corporation, which in turn levies for such funds on the Area Municipalities. Legislation also permits special discretionary school tax levies, within prescribed limits, to be made by the individual Area Municipalities for sums required by their local boards of education in excess of the amount of funds provided by the M.T.S.B.

EMPLOYEES

The Metropolitan Corporation and its consolidated local boards, commissions and

municipal enterprises employ approximately 25,000 persons and the school boards employ approximately 27,000 persons. About 95% of all such persons are employed under collective bargaining agreements.

Salaries, wages and benefit costs in respect of employees of the Metropolitan Corporation and its consolidated agencies (not including the school boards) aggregated $960 million in the financial year 1985 or 54% of total operating expenditures.

ECONOMIC INFORMATION

The Metropolitan Toronto Area is the centre of an extensive and diverse manufacturing, retailing, transportation and financial system. A majority of businesses which provide service on a national basis, such as advertising, accounting, printing and publishing, travel and industrial research are headquartered in the Metropolitan Area.

Statistics Canada does not compile economic statistics solely related to the Metropolitan Area. The area referred to by Statistics Canada as the Toronto Census Metropolitan Area (the "Toronto C.M.A.") includes the Metropolitan Area as well as adjacent areas to the east, north and west. Economic statistics for the Toronto C.M.A. are considered to fairly reflect the economy of the Metropolitan Area, the latter representing over 70% of the total population of the Toronto C.M.A..

Approximately 33% of Canada's retail market is located within 100 miles of Metropolitan Toronto. During 1985, The Toronto Stock Exchange, with a trading dollar value of $44.2 billion, accounted for approximately 76.5% of the activity on all the Canadian stock exchanges.

The following table shows the distribution of the working labour force of the Toronto C.M.A. according to the federal establishment survey of December 1985.

	% of Total
Business, Personal and Community Services	33.2
Manufacturing	23.8
Trade	
Wholesale	7.0
Retail	12.0
Finance, Insurance and Real Estate	9.8
Transportation, Communication and Utilities	7.1
Construction	4.5
Public Administration	2.5
Forestry and Mining	0.2

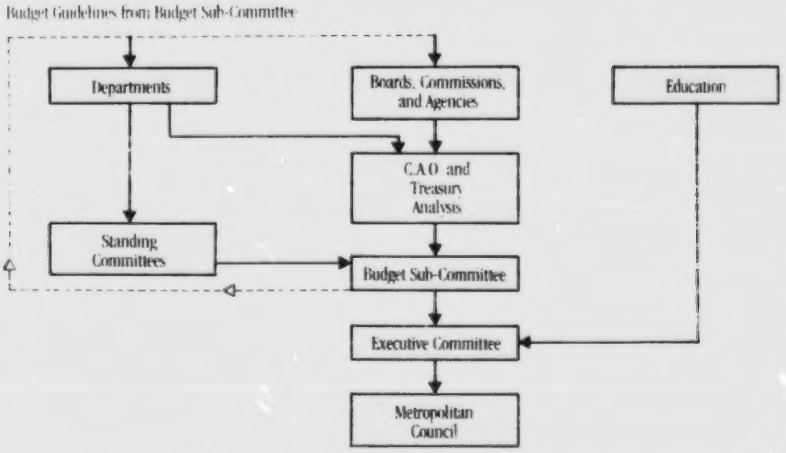
Source: Statistics Canada

By virtue of its varied industrial base and highly developed service sectors, the Metropolitan Area enjoys the highest total income and total disposable income of any municipal area in Canada.

FINANCIAL MANAGEMENT AND CONTROL

THE BUDGETARY PROCESS

The Metropolitan Toronto budgetary process for both the annual operating budget and the 5 year capital works program is shown schematically in the following chart and this process (excluding education) is outlined below:



— Staff of the Treasury Department, in consultation with the Budget Sub-Committee, issue budget guidelines to all Metro departments, boards, commissions and agencies.

— Departments Agencies prepare and submit their budget documents to the Treasury Department. A copy of the budget submission is also forwarded by the Department Agency to the applicable Standing Committee of Council.

— Standing Committees review the budget documents, with the main emphasis on policy and program issues, and forward their recommendations to the Budget Sub-Committee.

— Staff of the Treasury Department coordinate and prepare the necessary schedules and analysis reports.

— Members of the Budget Sub-Committee analyze the budget requests (and applicable amendments), and recommend the appropriate funding requirements and management actions.

— Recommendations of the Budget Sub-Committee are forwarded to the Executive Committee for consideration.

— Recommendations of the Executive Committee are forwarded to the Metropolitan Council for final approval and adoption of a general levy on the constituent area municipalities.

The Budget Sub-Committee is a sub-committee of the Executive Committee charged with reviewing the budget submissions, and presenting the formal budgets (operating and capital) to the Executive Committee and to the Metropolitan Council. The Budget Sub-Committee is composed of seven members, one from each of the six area municipalities of the Metropolitan Toronto federation, plus the Metropolitan Chairman who presides at the sub-committee meetings.

The annual operating budget establishes expenditure funding appropriations that are monitored throughout the year and, except for minor variations, the express prior approval of Council is required before incurring expenditure commitments that would create over-expenditures in approved appropriations.

The 5 year capital works program is reviewed and revised annually in the budgetary process that includes a fiscal impact analysis of each capital project to establish explicitly the financial impact that will be exerted on subsequent operating budgets. Such analysis forms the basis for recommended guidelines with respect to growth in annual debt charges, the level of debt outstanding and a balanced use of borrowing and capital financing out of current fund allocations. (See "Long Range Capital and Financial Planning" section.)

In the case of education, the budgetary process is carried out entirely by the Metropolitan Toronto School Board in conjunction with the local Boards of Education for the six area municipalities. Following formal approval of a budget by the Metropolitan Toronto School Board, it is then forwarded to the Metropolitan Executive Committee and Council for approval, in order to permit the striking of a property tax levy for public education purposes or for inclusion in the 5 year capital works program.

THE ACCOUNTING PROCESS

The present computerized Central Accounting, Budgeting and Management Reporting System was initiated in 1976 originally to eliminate most of the independent accounting systems previously maintained in each of the Metropolitan departments and to provide a central collection focus for accounting data. Since its inception, the System has developed progressively in modular form to meet the emerging needs of departments, particularly in the areas of management accounting and budgeting. It is now oriented essentially to a program management structure, with sufficient flexibility to ensure ready adjustment of information to the needs of the user.

To ensure that all transactions are recorded accurately and on a timely basis, and are properly approved and serve as the basis for reliable financial information, the Municipality maintains an extensive system of internal accounting controls. The adequacy and effectiveness of the control systems are subject to ongoing monitoring by the Treasury Department and by the Metropolitan Auditor.

THE AUDITING PROCESS

The consolidated financial statements of the Municipality of Metropolitan Toronto, together with the individual financial statements of the entities presented in the consolidation, the financial statements of the Metropolitan Toronto Housing Company, Limited (an unconsolidated local board of the Metropolitan Corporation) and the financial statements of the Municipality's unconsolidated special purpose funds, are all subject to independent audits conducted by the Metropolitan Auditor who is a statutory officer of the Metropolitan Corporation. (The financial statements of the Metropolitan Toronto School Board are subject to an independent audit by a private firm of professional accountants.) The Metropolitan Auditor reports independently to the Metropolitan Council in regard to the operations of each of the entities.

The Auditor's Report is based on an examination of the Corporation's accounting systems, procedures and internal controls and is made in accordance with generally accepted auditing standards, including such tests and other procedures as the Auditor considers necessary in the circumstances.

CONSOLIDATED FINANCIAL STATEMENTS, SUPPLEMENTARY FINANCIAL STATEMENTS AND STATISTICAL REVIEW

CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements of the Municipality of Metropolitan Toronto provide an overview and broad perspective of the financial activity for which the Municipality is deemed to be politically accountable. The individual entities presented and included within the consolidation comprise local boards, agencies and commissions of the Metropolitan Corporation carrying out both general municipal activities and functions of a municipal enterprise nature, as follows:

Municipality of Metropolitan Toronto (including the Metropolitan Board of

Commissioners of Police and the Metropolitan Licensing Commission)
Metropolitan Toronto Waterworks System
Metropolitan Toronto Library Board
Toronto Transit Commission
Gray Coach Lines Ltd. (consolidating Gray Coach Travel Inc.)
Board of Governors of Exhibition Place
Board of Management of the Metropolitan Toronto Zoo
Board of Management of the O'Keefe Centre
Board of Management of the Guild

The administrative and financial relationships of these individual boards, commissions and municipal enterprises to the Municipality of Metropolitan Toronto are dealt with in some detail later in this Report. The individual detailed financial statements of the consolidated boards, commissions and agencies are not included in this publication; rather, a listing of the addresses of the offices of each of these entities is provided on page 60 of this Report for any individual who may wish to obtain further information.

SUPPLEMENTARY FINANCIAL STATEMENTS

Included also in this Report are financial statements relating to the Metropolitan Toronto Housing Company, Limited, and the Metropolitan Toronto School Board, both of which are unconsolidated local boards of the Metropolitan Corporation, together with condensed financial information relative to the unconsolidated special purpose funds of the Municipality, viz. the Metropolitan Trust Funds, the Metropolitan Toronto Pension Fund, the Metropolitan Toronto Police Benefit Fund, the Metropolitan Toronto Board of Commissioners of Police Supplementary Pension Benefits Trust Fund, and the Metropolitan Sinking Funds.

STATISTICAL REVIEW

Finally, a Statistical Review has been compiled and included to provide general information and comprehensive statistical data for the Municipality of Metropolitan Toronto and afford a broader and more complete understanding of the Municipality's financial condition than is possible from simply an examination of the individual financial statements. It comprises multi-year comparative trend data, information concerning fiscal capacity and debt-related statistics of the Metropolitan Corporation.

CONSOLIDATED BOARDS, COMMISSIONS AND AGENCIES

The administrative and financial relationships between the Municipality of Metropolitan Toronto and its individual consolidated boards, commissions and agencies are outlined below:

METROPOLITAN WATERWORKS SYSTEM

The Metropolitan Waterworks System, a municipal enterprise of the Metropolitan Corporation, is responsible for the supply of potable water of the highest standard of quality conforming to the requirements of Provincial and Federal Acts and Regulations in a quantity sufficient for the requirement of the citizens of the Metropolitan Toronto Area. The System undertakes the treatment, pumping, trunk transmission, storage and supply of water for the constituent area municipalities and the southerly portion of the Regional Municipality of York; the latter under an agreement with the Province of Ontario.

Water rates for this municipal enterprise are legally required to be set at a level that will enable the Waterworks System to be self-sustaining after providing for such

maintenance, renewals, debt charges and reserves as the Metropolitan Council deem proper, and any surplus revenues not required for such purposes must remain at the credit of the System.

Administration of the water supply function in 1985 involved the operation of 4 filtration plants, including quality control laboratories; 21 pumping stations; 10 major reservoirs; 4 elevated tanks and a 454 km large diameter water main transmission network, furnishing about 517 million cubic metres to the six area municipalities. To ensure proper treatment, achievement of conformity to potability standards, and to verify the above by testing water delivered to the consumer, a staff of highly qualified scientific personnel at four laboratories continually analyzes samples. During 1985 a total of 271,064 samples were taken and analyzed.

In 1985 total expenditures amounted to $83,048,000. Operating revenues, principally from the sale of water, totalled $83,176,000 resulting in net revenue for the year of $128,000. The balance of accumulated net revenue at the credit of the System stood at $19,719,000 as at December 31, 1985.

METROPOLITAN TORONTO LIBRARY BOARD

The Metropolitan Toronto Library Board provides direct reference service to the public and regional support services to the local area municipality public libraries of Metropolitan Toronto. The Library Board is financed by funds requisitioned from the Metropolitan Corporation, from time to time, as required, up to the limit approved in the Board's budget by the Metropolitan Council.

The eleven member Board, which holds office for a three-year term, is composed of the Metropolitan Chairman and ten other appointed members. Two such members are appointed by the Metropolitan Council, one by each Area Municipality Council, one by the Metropolitan Toronto School Board and one by the Metropolitan Separate School Board.

The operations of the Board are primarily of a central reference nature rather than the provision of circulation services, which is mainly provided by the library boards of area municipalities. Regional support services provided to the area municipality public library systems cover many areas including audio visual services, multilanguage services, inter-library loan, truck delivery services, and centralized cataloguing of specialized materials such as periodicals, newspapers, 16mm films, talking books, multilanguage materials and video programs.

In 1985 the Board, with its emphasis on service, opened a new Centre for Disabled Persons equipped with the latest technology to make its collections accessible to people with physical handicaps. In addition, an extensive planning process was initiated with surveys of users, non-users, area municipality library staff, telephone users and its own staff. It is anticipated that the analysis of the results obtained will form the basis of a revised statement of goals and objectives in 1986.

Total operating expenditure for 1985 was $22,675,000 and was financed by $20,537,000 from the Metropolitan Corporation, $1,495,000 by the Province of Ontario and the balance of $643,000 from other sources, principally recoveries from other regional library services and area library boards for services rendered, photocopying services and the sale of miscellaneous publications.

TORONTO TRANSIT COMMISSION

The Toronto Transit Commission (T.T.C.) has exclusive authority to provide local passenger transportation services within the Metropolitan Toronto area; the only exceptions being railways, taxis, horse-drawn vehicles used for the purpose of providing sightseeing tours, privately owned or operated buses in certain limited uses, the Island ferries and bus transportation on the Toronto Islands. The T.T.C. is

administered by five Commissioners, and is presently composed of two Metropolitan Council members and three others, all of whom are appointed by Metropolitan Council.

Following the recommendations of a Joint Metro T.T.C. Transit Policy Committee, a "user's fair share" principle has been formally adopted by the Metropolitan Council which generally defines the amount of operating expenses that are to be the financial responsibility of the User (T.T.C.), the Metropolitan Corporation and the Province of Ontario. In accordance with this principle, the Commission establishes its fares at a level projected to produce total revenue from operations equal to 68% of total operating expenses (as defined for provincial subsidy purposes). The Municipality undertakes in its budget to provide an operating subsidy equal to the remaining expenses and, in turn, obtains subsidies from the Province of Ontario related to eligible transit operating expenses, revenue cost relationships and special subsidies for major new transit facilities on exclusive rights of way.

The T.T.C.'s total operating expenditure during 1985 amounted to $426,972,000 while total operating revenues (principally fare revenue) were $301,586,000. This resulted in a net operating cost of $125,386,000 which was met by the Metropolitan Corporation; the Province of Ontario, in turn, contributed a transit operating subsidy to the Municipality of $72,805,000, relating to the T.T.C.'s operating costs and other transit expenditures incurred directly by the Municipality.

Capital expenditures in 1985 were $191 million which were financed $145 million by Provincial subsidy, $35 million by Metropolitan Toronto and $11 million by the T.T.C. Of the total capital expenditure incurred in the year, $156 million was spent for new rapid transit and other major construction work, while the balance of $35 million was incurred for the replacement, renovation and rehabilitation of existing surface and general transit facilities.

GRAY COACH LINES, LIMITED

Gray Coach Lines, Limited, a wholly-owned subsidiary of the Toronto Transit Commission, operates inter-urban coach services over franchised routes to other cities, chartered and special services and sightseeing tours, its operations being separate from but complementary to the operations of the Toronto Transit Commission. Gray Coach Travel Inc., a wholly-owned subsidiary of the Company, operates a conducted tour business.

The Company's fares and routes are regulated by the Province of Ontario and a significant part of the Company's operations has been carried out under an agreement with the Toronto Area Rapid Transit Authority as part of the Province's "GO Transit" commuter system. During 1984, it was agreed with the Province that a phase-out of the Company's operation of "GO Transit" routes would occur over the next five years.

The Board of Directors of Gray Coach Lines, Limited, is composed of three directors appointed by the T.T.C. plus the Chairman and the Chief General Manager of the T.T.C. The President and Chief Executive Officer of the Company is ex-officio the sixth member of the Board. The Chairman of the T.T.C. also serves as Chairman of the Gray Coach Board.

In 1985 the consolidated net earnings of Gray Coach Lines, Limited, on a commercial basis of accounting, were $1,071,000; a dividend was declared payable to the Toronto Transit Commission of $500,000 leaving consolidated retained earnings in the Company of $13,890,000.

BOARD OF GOVERNORS OF EXHIBITION PLACE

The Board of Governors of Exhibition Place operates and manages Exhibition Place,

including the Exhibition Stadium, on behalf of the Municipality of Metropolitan Toronto under the terms of an agreement between the Board and the Metropolitan Toronto Council which specifies that net operating income is payable to the Municipality and that the Municipality is responsible for any deficit.

The Board is comprised of fourteen members: the Metropolitan Chairman, the Mayor of the City of Toronto, the President of the Canadian National Exhibition Association and eleven members appointed by Metropolitan Council.

Major capital facilities at Exhibition Place are financed by and are the property of the Municipality of Metropolitan Toronto. Costs of other expenditures on plant and equipment, including major improvements and maintenance, are charged by the Board to current operations in the year of purchase and these facilities also are the property of the Municipality. Accordingly, fixed assets are not valued on the books of the Board of Governors of Exhibition Place and depreciation is not charged in its accounts.

A user fee of 25 cents per ticket sold at a price greater than $2.00 is assessed on events produced in Exhibition Stadium. The amounts collected are paid into a reserve fund of the Municipality of Metropolitan Toronto to be used to defray the costs of future capital improvements.

Exhibition Place covers approximately 350 acres on the shore of Lake Ontario. It is the home of the annual twenty-day Exhibition fair in August and is also the site of many trade, industrial and consumer shows, and agricultural, theatrical, musical and other events. The Canadian National Exhibition Association manages and operates the annual fair by agreement with the Board of Governors of Exhibition Place.

The Board of Governors is also responsible for the operation and maintenance of Exhibition Stadium. Activities held at Exhibition Stadium include the league scheduled games of the Toronto Argonauts of the Canadian Football League and the Toronto Blue Jays of the American Baseball League, musical events, the annual C.N.E. Grandstand shows, and various amateur events.

1985 was another successful year at Exhibition Place; a surplus of $3,719,000 was realized on the Board's annual operation and credited to the general revenues of the Metropolitan Corporation.

In May 1985, the Metropolitan Council created a "Task Force on the Future Uses of Exhibition Place" to study the long term possibilities for the site. The Task Force has invited input from all current users and other interested parties with respect to future and potential uses of Exhibition Place and reviewed all relevant studies that have been completed. It is anticipated that it will table its final report in the fall of 1986.

BOARD OF MANAGEMENT OF THE METROPOLITAN TORONTO ZOO

A Board of Management consisting of nine members appointed by Metropolitan Council, four of whom are nominees of the Metropolitan Toronto Zoological Society, operates and manages the Metropolitan Toronto Zoo under the terms of an agreement between the Board and the Municipality of Metropolitan Toronto which is responsible for any deficit and is entitled to any net income from operations.

Major capital facilities at the Zoo are financed by and are the property of the Municipality of Metropolitan Toronto. Costs of other expenditures on plant and equipment are charged by the Board to current operations in the year of purchase.

A feature attraction of the Zoo in 1985 was the Panda exhibit, featuring two Giant Chinese Pandas, and which was officially opened on July 19, 1985 by Madame Lin

Jianei, wife of Chinese President Li Xianian. The exhibit, which ran for 110 days, contributed to paid admissions reaching an all-time high of 1,590,000 (1984 — 969,000) and in the generation of an additional $3 million in revenue.

Total zoo revenues from admissions, retail sales, parking, concessions, etc., amounted to $7,489,000. Expenditures totalled $12,227,000 resulting in a net cost of operation of $4,738,000 which was financed entirely by the Metropolitan Corporation.

BOARD OF MANAGEMENT OF THE O'KEEFE CENTRE

The O'Keefe Centre was built in 1960 by The O'Keefe Brewing Company which, after operating it for eight years, made a gift of the building and all equipment and furnishings to the Municipality of Metropolitan Toronto.

A Board of Management operates and manages the O'Keefe Centre for the Performing Arts as a theatre under the terms of an agreement between the Board and the Municipality of Metropolitan Toronto. Net operating income is payable to the Municipality and the Municipality is responsible for any deficit.

The Board may be comprised of not less than three and not more than seven persons appointed by Metropolitan Council for such terms of office as Council may determine. It is the present policy of Metropolitan Council to appoint three of its members to the Board along with four persons who are not members of Metropolitan Council.

O'Keefe Centre provides entertainment for a diversity of audiences consistent with the responsibilities of a publicly-owned theatre to its community: musicals, revues, opera, ballet, symphony, drama, jazz, and special community social and cultural events. The Centre is the home for two principal tenants, the Canadian Opera Company and the National Ballet of Canada.

The O'Keefe Centre has generated net income from operations in each of the past seven years; the 1985 total surplus amounted to $709,000 and was credited to the general revenues of the Metropolitan Corporation. In 1979, a major rehabilitation and replacement programme was commenced to restore the building to its original first-class standards. Over the past seven years, the Centre has spent in excess of $4.7 million on renovations which have been funded 75% from Metro's operating budget and 25% from a ticket surcharge.

1985 marked the 25th Anniversary of the opening of the Centre, an event which has been hailed as marking the beginning of a new cultural era in Metropolitan Toronto.

BOARD OF MANAGEMENT OF THE GUILD ("THE GUILD INN")

The Board of Management of the Guild, a local board of the Metropolitan Corporation, was established as a Corporation by an amendment to the Municipality of Metropolitan Toronto Act in 1983. In accordance with the Act, the Metropolitan Council:

a) appoints the members of the board

b) is responsible for any deficit and is entitled to any surplus from operations.

The Board consists of fifteen members, composed of a Chairman and fourteen members appointed by Metropolitan Council of whom seven are nominees of the Province.

The land, buildings and equipment are owned by the Metropolitan Toronto and

Region Conservation Authority and leased to the Municipality of Metropolitan Toronto. As a consequence, the costs of any capital expenditures on plant and equipment incurred by the Board are charged to current operations in the year of purchase.

In 1985 total net revenue, principally from room rentals, food and beverage sales totalled $1,510,000. Total operating expenses amounted to $1,822,000 resulting in an operating deficit of $312,000 which was financed by the Metropolitan Corporation.

Under the terms of an agreement between the Board of Management and the Municipality of Metropolitan Toronto executed on December 6, 1983, the Board assumed control of the operation and management of the Guild Inn on behalf of the Metropolitan Corporation on January 1, 1984. The agreement further provided that the Board assume responsibility of the Guild's operation for a period of two years during which time a study would be made to develop recommendations for the best and most appropriate future uses of The Guild and the uses of the lands immediately adjoining thereto, and also the best and most appropriate future organization and management structure for The Guild.

The resultant study, entitled "Development Plan for the Future Use of the Guild Inn" concluded that the most appropriate option was the conversion of The Guild into a luxury resort hotel with added emphasis on preserving the cultural value of the property. The Board of Management's operating mandate has been extended to November 30, 1986, pending final resolution on the future of the Guild.

EXPENDITURE

In 1985, the general operating activities of the Municipality and its consolidated local boards and municipal enterprises resulted in a total gross expenditure of $1,790,457,000 (1984 — $1,652,959,000) as compared with a total gross operating budget of $1,796,249,000.

The table below details the expenditure for the year classified by program and by object.

Dollars in thousands

Program	1985 Budget	1985 Actual	1985 %	1984 Actual	1984 %	Increase (Decrease) 1985 Actual over 1984 Actual	Increase (Decrease) 1985 Actual over 1985 Budget
General government	$ 66,393	$ 65,038	3.6	$ 68,927	4.2	$ (3,889)	$ (1,355)*
Protection to persons and property	370,588	363,631	20.3	341,084	20.6	22,547	(6,957)*
Transportation services	581,938	584,382	32.6	527,752	31.9	56,630	2,444 **
Environmental services	211,003	224,937	12.6	198,530	12.0	26,407	13,934 ***
Health services	42,944	40,726	2.3	39,271	2.4	1,455	(2,218)*
Social and family services	388,576	377,705	21.1	354,675	21.5	23,030	(10,871)*
Recreation and cultural services	125,896	125,474	7.0	113,301	6.9	12,173	(422)
Planning and development	8,911	8,564	0.5	9,419	0.5	(855)	(347)
	$1,796,249	$1,790,457	100.0	$1,652,959	100.0	$137,498	$(5,792)
Object							
Salaries, wages and employee benefits		$ 958,988	53.6	$ 897,960	54.3	$ 61,028	
Materials, supplies, services, rents and financial expenses		358,381	20.0	335,277	20.3	23,104	
Capital additions		34,635	1.9	21,427	1.3	13,208	
Operating transfers to other funds		46,727	2.6	55,879	3.4	(9,152)	
Other transfers		200,740	11.2	182,703	11.0	18,037	
Capital financing charges		190,986	10.7	159,713	9.7	31,273	
		$1,790,457	100.0	$1,652,959	100.0	$137,498	

* For an explanation of these positive variances, see "Accumulated Net Revenue" sectoin on page 28.

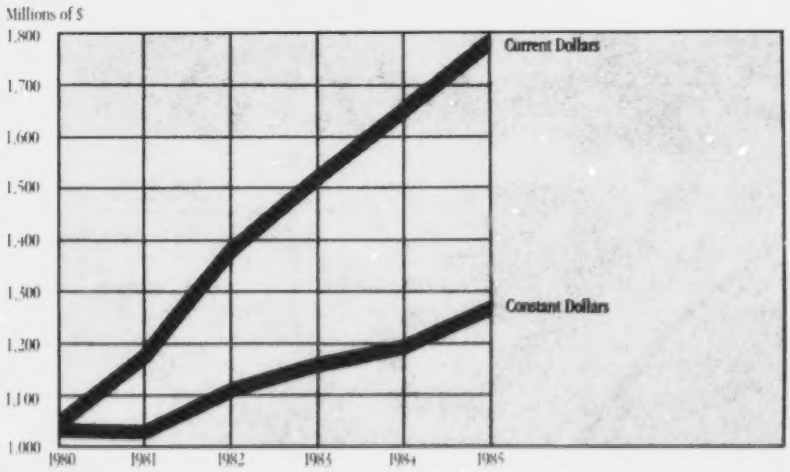
** This variance is primarily attributable to an increase in the requirement of capital financing from current funds, consequent upon a higher than anticipated level of net transit capital expenditures during the year (see "Long Range Capital and Financial Planning" section on page 30).

*** The variance is mainly accounted for by the provision, in September 1985, of a Reserve for Water Rates Stabilization in the amount of $10,000,000. (See "Reserves and Reserve Funds" section on page 29.)

As in the past several years, the operations of the Toronto Transit Commission, the Board of Commissioners of Police (included in the "Protection to Persons and Property" program) and the Social Services Department (in respect of general welfare assistance) received, at 60% (1984 — 60%), the largest portion of the total operating funds to finance their activities.

CONSOLIDATED OPERATING EXPENDITURES 1980-1985

The graph below details total consolidated operating expenditures over the past six years in both current and 1980 constant dollars.



REVENUE

There are four major categories of revenue of the Metropolitan Corporation:

(i) Levy requisitions upon the constituent Area Municipalities (principally the general tax levy but including also the sale of water), being 40% of the total;

(ii) Provincial grants (unconditional and specific), being 26% of the total;

(iii) User charges in respect of municipal services, being 30% of the total;

(iv) Other operating and miscellaneous revenues, being 4% of the total.

Statistics over the past six years indicate the percentage portion of revenue that was contributed by each major source has exhibited little change during that period of time.

LEVY REQUISITIONS UPON AREA MUNICIPALITIES

General tax levy

The Metropolitan Corporation levies sums of money, not mill rates, on the constituent area municipalities. However, it has been customary, for purposes of yearly

comparisons, to express the total general levy in terms of an "average equivalent mill rate." The actual mill rates levied for Metro purposes by area municipalities vary from this "average", due to a combination of factors.

The assessment figures used for purposes of apportionment of the Metro levy include, in addition to taxable amounts, the equivalent assessed value of all properties for which the area municipalities receive payment in lieu of taxes and also equivalent assessments in respect of telephone and telegraph company receipts and certain Provincial grants. Commencing in 1984, Provincial legislative changes provide for the General Tax Levy to be distributed by area municipality on the basis of weighted assessment; weighted assessment being the total of commercial assessment and 85% of residential assessment.

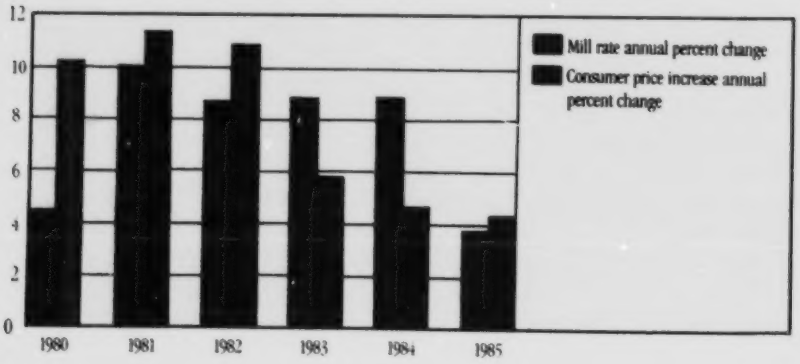
In accordance with the current Provincial legislation, the Metro general levy requirement is apportioned over the six area municipalities on the basis of this weighted total general Metropolitan assessment to determine the net amount of money actually levied upon each area municipality. Such sums are then converted by each area municipality into its own residential and commercial mill rates, based on taxable assessments, with the residential rate established at 85% of the commercial rate. These rates will differ from the Metro "average mill rate", which is simply an expression of the net Metro levy in relation to the total Metro "equalized assessment" used in the apportionment process.

For purposes of comparing the Metro general levy in 1985 with that in 1984, the calculated "average equivalent mill rate" indicates an increase of 2.77 mills or 3.7% in 1985 as follows:

Dollars in thousands

	General Levy	Weighted Assessment	"Average Equivalent Mill Rate"
1985	$628,435	$8,141,839	77.19
1984	597,246	8,025,878	74.42
Increase 1985 over 1984	$ 31,189	$ 115,961	2.77
% Increase	5.2	1.4	3.7

The following diagram compares the increase in the Metro "average equivalent mill rate" with annual consumer price increases over the last six years.



Tax collection

The Area Municipalities are responsible for the billing and collection of taxes for their own purposes as well as for the Metropolitan Corporation and boards of education. Taxes which are not paid when due are subject to an interest penalty which

is added to the tax arrears and collected as taxes. Generally, the Area Municipalities collect taxes in six instalments throughout the year. The following table sets forth the tax collection record of the Area Municipalities for the years 1980 through 1985.

Dollars in thousands

Year	Current Taxes Billed	Total Arrears Including Penalties and Interest	Total Tax Arrears as % of Current Taxes Billed	Current Collections of Current Taxes Billed	Current Collections as % of Current Taxes Billed	Total Collections	Total Collections as % of Current Taxes Billed
1980	$1,471,971	$ 81,674	5.5	$1,416,715	96.2	$1,492,027	101.4
1981	1,650,999	94,854	5.7	1,582,106	95.8	1,648,181	99.8
1982	1,891,075	105,563	5.6	1,816,276	96.0	1,890,279	100.0
1983	2,091,270	108,355	5.2	2,015,148	96.4	2,098,982	100.4
1984	2,283,463	103,172	4.5	2,213,674	96.9	2,297,102	100.6
1985	2,457,939	96,678	3.9	2,392,104	97.3	2,451,276	99.7

The total arrears of $96,678,000 outstanding at December 31, 1985 were composed of the following:

Unpaid taxes from 1985	$65,835	68.1%
Unpaid taxes from 1984	13,070	13.5
Unpaid taxes for years prior to 1984	11,853	12.3
Penalties and interest	5,920	6.1
	$96,678	100.0%

Sale of water to Area Municipalities

Revenues deriving from the sale of water to the six constituent area municipalities are reported within the category of "Levy Requisitions" in conformance with Provincial financial reporting requirements.

The water rate charged all area municipalities in 1985 was 15.30 cents per cubic metre (14.57 cents in 1984), in accordance with a schedule set out in By-law 102-81 passed by the Metropolitan Council on May 26, 1981.

The administration of the water supply function is the responsibility of the Metropolitan Waterworks System, a municipal enterprise of the Metropolitan Corporation, and its operation has been explained in some detail on page 19.

PROVINCIAL GRANTS

Provincial grant transfers to the Municipality comprise unconditional grants (principally household grants for general and policing purposes, together with general support and resource equalization grants) and conditional grants, primarily based on eligible municipal expenditures.

The total of grants and subsidies received from the Province during 1985 was $460,665,000 compared with $426,715,000 in 1984, an increase of 7.9%. As in 1984, the General and Police unconditional grants were calculated on the basis of households, replacing the per capita basis used previously. The only change in provincial grant policy was in the enrichment of the Police Household Grant rate from $47 to $50 per household, contributing to an increase in such grant from $39,356,000 in 1984 to $42,124,000 in 1985, an increase of $2,768,000 or 7%.

The overall total increase in the level of Provincial assistance in 1985 of $33,950,000 is essentially a reflection of increased spending in functional areas eligible for continuing Provincial Subsidies.

USER CHARGES

Within the category of user charges fall revenues arising from the provision of

municipal services by the Municipality, its boards, commissions and enterprises, e.g. transit fares; admission fees to the C.N.E., Exhibition Stadium, the Metro Toronto Zoo, the O'Keefe Centre; rents, concessions and franchises; licenses and permits; sales of equipment; refuse disposal charges; island ferry revenue and other like user-oriented revenue.

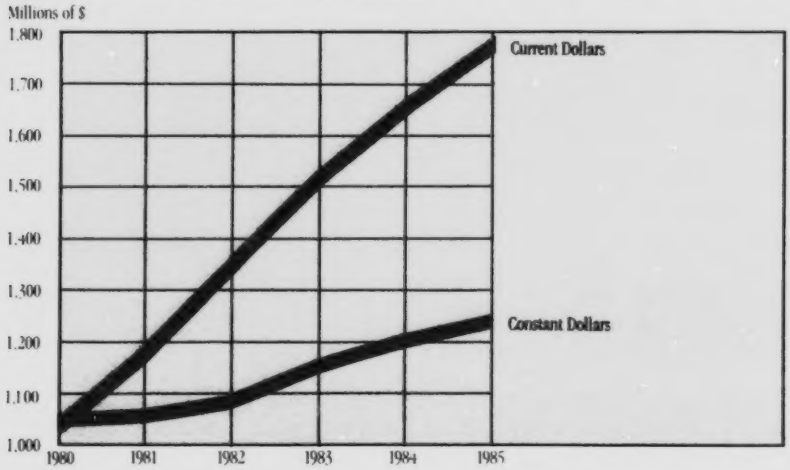
Also classified as user charges is a sewer surcharge levied upon the sale of water to the Metropolitan area municipalities, the proceeds of which are credited to the general revenue of the Metropolitan Corporation and used to defray the costs of water pollution control. This surcharge, originally instituted in 1974 at the rate of 10% of water sales, has steadily been increased over the last eleven years and stood at 90.5% in 1985 (1984 — 81%). Metro Council's objective is essentially to fund the total cost of operation of the water pollution function entirely from this surcharge, and since water pollution costs exceed those of water supply, the surcharge will have to continue beyond 100% of the water rate.

OTHER OPERATING AND MISCELLANOUS REVENUES

These include all other revenues which arise from operations and activities incidental to the discharge of the primary functions of the Municipality and include such sources as investment income, library fines and parking tag revenue.

CONSOLIDATED OPERATING REVENUES 1980-1985

The graph below details total consolidated operating revenues over the past six years in both current and 1980 constant dollars.



ACCUMULATED NET REVENUE

The current fund surplus in respect of its general municipal purpose operations recorded by the Metropolitan Corporation in 1985, in excess of $37 million, represented the 32nd consecutive annual surplus and is attributable to a number of circumstances, the more significant being:

a) interest costs on temporary financing were lower than budgeted;

b) actual strength of Police Commission uniform and civilian personnel was lower than budgeted;

c) lower than budgeted ambulance payroll costs; certain ambulance equipment not purchased as supplies could not meet departmental specifications;

d) general welfare assistance caseload and related area office administration costs were lower than estimated; the space expansion program for children's services was not implemented as quickly as forecasted; a decline was experi-

enced in anticipated level of social services program support;

e) additional revenue from the Panda exhibit resulted in a lower than forecasted net operating cost for the Metro Toronto Zoo.

CAPITAL OPERATIONS

Gross capital expenditure in 1985 amounted to $292 million, an increase of 21% over 1984. Of this sum, $173 million, or 59%, was spent on expansions and improvements to the transit system, while sewage and refuse disposal capital expenditure, at $34 million, accounted for 12%. Expenditures in regard to protection to persons and property totalled $24 million, or 8%, and related primarily to expenditure on the expansion of the new police headquarters.

Transit capital expenditures were mainly associated with the Toronto Transit Commission's ongoing program of vehicle fleet modernization. The older generation subway cars that date as far back as the opening of the Yonge Street subway in 1954 were gradually replaced by more efficient subway cars, and expenditures on a 126-car order in 1985 totalled $48.2 million. The advanced-technology Scarborough Rapid Transit line opened on March 23, 1985 and final expenditures on the project amounted to $15.2 million in 1985.

Total financing of capital expenditures during 1985 amounted to $272,291,000 and was comprised principally of provincial capital grants in the sum of $142,507,000 (53%), contributions from current funds of $87,550,000 (32%) and excess sinking fund investment earnings of $18,848,000 (7%). In addition, long term debt incurred amounted to $11,645,000 (4%) while other miscellaneous sources of capital financing such as proceeds from the sale of capital assets and sundry capital contributions and recoveries totalled $11,741,000 (4%).

RESERVES AND RESERVE FUNDS

The table below lists the year end balances in the total consolidated reserves and reserve funds of the Municipality over the last six years in relation to total operating expenditures:

Dollars in thousands

	Reserves and Reserve Funds	Total Operating Expenditures	Percentage
1980	$31,174	$1,044,932	3.0
1981	47,918	1,173,755	4.1
1982	91,363	1,375,444	6.6
1983	59,504	1,516,614	3.9
1984	87,058	1,652,959	5.3
1985	97,133	1,790,457	5.4

The sharp increase in the balances in reserve in 1982 is principally attributable to the creation during that year of a capital financing stabilizing reserve in the sum of $39,694,000; in 1983 an amount of $22,577,000 was utilized from the reserve to finance the net capital requirements of the year in accordance with the Council policy to maintain a balanced financing mix between internally generated revenues and external bond financing (see "Long Range Capital and Financial Planning" section).

During 1985, in anticipation of the accumulated net revenue at the credit of the Metropolitan Waterworks System amounting to approximately $30 million by the end of the year, Metropolitan Council appropriated the sum of $10 million to a Reserve for Stabilization of Water Rates. In addition Council approved a recommendation that, subject to obtaining any necessary enabling legislation, the balance of accumulated water supply net revenue be transferred to a Reserve for Water

Pollution Control Measures and applied to expedite and finance water pollution control projects to be identified in annual budget reviews.

LONG RANGE CAPITAL AND FINANCIAL PLANNING

CAPITAL EXPENDITURE FINANCED FROM CURRENT FUNDS

Metropolitan Council's long-range capital and financial planning policy for its general municipal purpose and municipal enterprise operations is designed to ensure a balanced financing mix between internally generated revenues and debenture financing for the Municipality's capital expenditures and other long term capital improvements. The capital financing policy adopted is designed essentially to stabilize the contribution of the revenue fund towards capital expenditures at a level generally of 50 per cent of the actual net capital financing requirements for each year. To the extent that the annual provision in the operation budget to finance capital expenditures out of current funds exceeded this limit, the excess is transferred to a capital financing stabilization reserve; conversely if such annual provision amounted to less than the 50 per cent guideline, the shortfall is met by a draw upon the reserve.

The capital financing provision for the 1985 financial year in respect of the Corporation's general municipal purposes was increased, with the approval of Metropolitan Council, to 6 mills of the total metropolitan general assessment from a level of 5 mills in 1984. Early in 1985, based upon the approved capital spending estimates, it was anticipated that such 6 mill capital financing of itself would not represent 50 per cent current financing but would have to be augmented by a draw of $1.9 million from the capital financing stabilization reserve. However, because the level of 1985 capital expenditures actually incurred was significantly lower than anticipated, the 6 mill capital financing provision proved to be in excess of requirements; accordingly such excess, in the amount of $1,704,000, was transferred to the capital financing stabilization reserve in accordance with Council policy.

GUIDELINES FOR FUTURE CAPITAL EXPENDITURE

In May 1985, Metropolitan Council approved a ten-year plan of capital expenditure and associated debt management guidelines, following a comprehensive financial planning study designed to identify measures to further control the Corporation's capital expenditures and debt servicing charges within limits considered necessary to achieve multi-year financial targets established by Council. The study projects over an extended period of years the levels of net capital expenditures in various functional areas, with a view to determining priorities as between competing service demands for capital resources and relating such multi-year expenditure levels and priorities to debt management policy guidelines.

Recommendations included:

a) specific net capital expenditure targets for the next five years and further five year targets to be utilized as a planning guide;

b) specific criteria for the management of debt;

c) a process to review and update the plan on an annual basis.

The expenditure targets approved by Metropolitan Council are based on three key criteria:

a) percentage of fixed debt charges in the levy should average no more than 15 per cent;

b) percentage of net capital expenditure to be raised in the levy should be no less than 50 per cent; and

c) the mill rate should increase each year by no more than the inflation rate within the economy as measured by the Consumer Price Index.

These guidelines will form the basis of the Budget Sub-Committee's review of future Five-Year Capital Works Programs; any revisions to long term capital expenditure targets arising from such reviews are to be the subject of subsequent reports to Metropolitan Council.

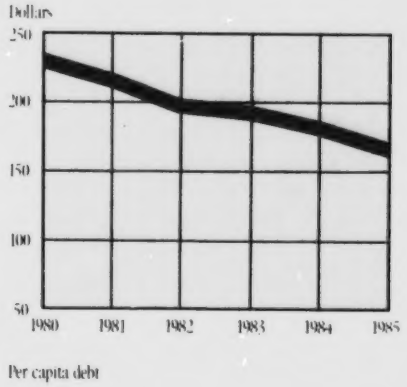
DEBT STRUCTURE

The table below portrays the gradual decline in the level of net long term liabilities of the Municipality of Metropolitan Toronto over the last six years in respect of its own general municipal activities and municipal enterprises (exclusive of those of the Area Municipalities). Net long term liabilities in respect of general municipal purposes are also expressed on a per capita basis and as a percentage of taxable assessment.

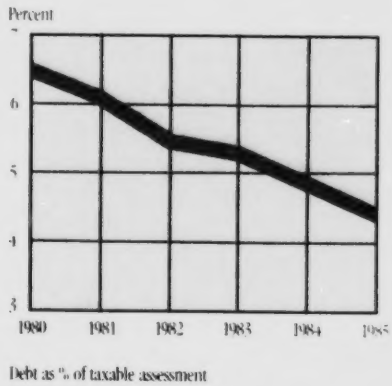
Dollars in thousands, except per capita figures

	General Municipal Activities	Per Capita	% of Taxable Assessment	Municipal Enterprises
1980	$478,786	$227	6.48	$145,636
1981	452,608	214	6.08	136,189
1982	419,148	197	5.41	123,293
1983	415,318	196	5.28	109,636
1984	388,949	182	4.85	96,298
1985	358,207	167	4.40	83,948

Metro Council's capital financing policy involving a "pay-as-you-go" annual provision of about 50 per cent of capital borrowing requirements, as previously described, has been over the last several years one of the most significant contributing factors in the continuing decline of the Corporation's long term debt. Depicted below is an illustration of such decline expressed in per capita terms and as a percentage of taxable assessment.

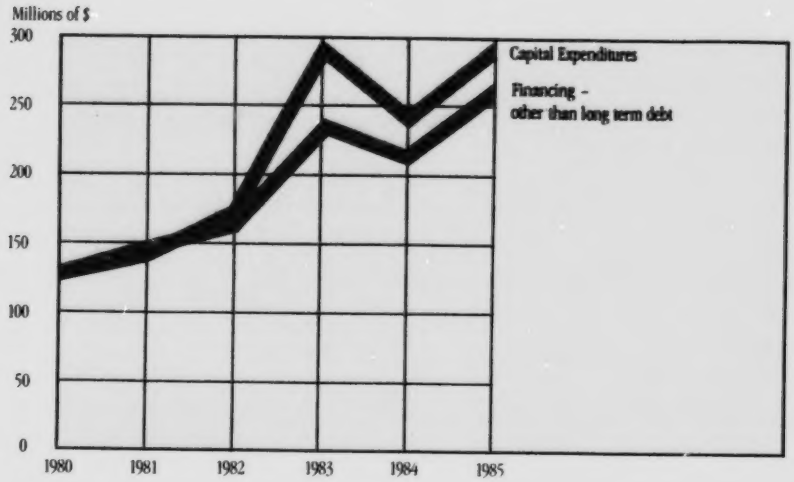


Per capita debt



Debt as % of taxable assessment

This "pay-as-you-go" capital financing policy is further highlighted in the following chart which portrays the Corporation's capital expenditures over the last six years together with all sources of financing other than long term debt.



DEBT SERVICING

Also during the past 6 years, debt service charges for the general municipal purposes of the Metropolitan Corporation, as a percentage of the annual general tax levy on Metropolitan taxpayers, has declined from 22.3 per cent to 14.9 per cent and as a percentage of gross expenditure from 11.5 per cent to 7.2 per cent as shown by the follcwing tables:

Dollars in thousands

	Debt Charges	General Levy	Percentage
1980	$86,950	$389,063	22.3
1981	87,178	430,828	20.2
1982	85,853	486,570	17.6
1983	87,744	537,690	16.3
1984	91,797	597,246	15.4
1985	93,936*	628,435	14.9

	Debt Charges	Gross Expenditure	Percentage
1980	$86,950	$758,245	11.5
1981	87,178	843,425	10.3
1982	85,853	1,004,221	8.5
1983	87,744	1,122,253	7.9
1984	91,797	1,219,647	7.5
1985	93,936*	1,310,864	7.2

* Exclusive of debenture interest accrual charges (see "Change in Accounting Policy — Debenture Interest Charges") in order to retain consistency in comparison.

DEBT RECORD

The Metropolitan Corporation has consistently paid the full amount of the principal and interest for every security issued by it, or for which it has become liable; all when due and in the lawful currency of the country where it became payable.

Included in the Statistical section is information in tabular and graphic form relating to the total debenture debt of the Metropolitan Area. In addition, a

comprehensive portrayal of Metropolitan Corporation Debenture Debt is contained in the Municipality's Debenture Debt Report issued annually, copies of which are available at the address indicated on the back cover of this Report.

CHANGE IN ACCOUNTING POLICY — DEBENTURE INTEREST CHARGES

In conformance with revised municipal accounting principles and financial statement disclosure requirements issued by the Province of Ontario, the Municipality has been permitted to accrue debenture interest charges in respect of its general and municipal enterprise purposes from January 1, 1985. In anticipation of this change reserves were first established in 1982 to permit the phasing in over intervening years of the fiscal impact on current operations. Included in the 1985 debenture interest charges on long term debt is the sum of $18,555,000 representing such accrual, although this is more than offset by the reserves established for this purpose.

SINKING FUNDS

The Municipality of Metropolitan Toronto Act provides that upon the issuance of sinking fund debentures, a specific sum shall be levied annually which, together with interest capitalized yearly thereon at an interset rate not exceeding 8%, will be sufficient to repay the debentures in full at maturity.

As a result of the actuarial interest rates employed, surplus earnings related to debt service for all the participants in the funds have consistently been achieved and have been applied, where applicable, to reduce levies for debt service during the term of the debentures. The reserve for abatement of such levies as at December 31, 1985 amounted to $63,118,000 in the Canadian Fund and $22,643,000 in the U.S. Fund. In addition, amounts of Canadian $25,756,000 and U.S $5,566,000 of surplus funds, accumulated in excess of debts at maturity, are payable to the participants in the Funds. The sinking fund accumulated surplus in excess of the actuarial requirements and the reserve for abatement of future levies amounted to $38,700,000 in the Canadian Fund and $11,370,000 in the U.S. Fund at December 31, 1985.

SIGNIFICANT ACTIVITIES

THE MARKETING OF METROPOLITAN TORONTO

In 1985, the Economic Development Division of the Office of the Metropolitan Chairman embarked on a number of economic development strategies, principally the establishment of an active advertising campaign geared to promoting Metro throughout Canada, the United States, Europe and Asia.

Ongoing activities relate to the expansion of the marketing campaign through participation in various trade shows, the development of economic development policies and strategies for Metropolitan Toronto, and various special projects, geared to retaining existing businesses and servicing new investment prospects in the Metropolitan Toronto community.

Additional information in this regard may be obtained from Don Baxter, Executive Director of Economic Development, Municipality of Metropolitan Toronto, Office of the Chairman, City Hall, 2nd Floor, Toronto, Ontario, M5H 2N1 (telephone: 416-392-8001; telex 06-23472).

TRANSPORTATION

1985 was another record year for the Toronto Transit Commission in terms

of passengers carried and service miles operated. Total annual ridership rose to 432 million, or 1% better than in 1984, principally because of employment growth in areas with high transit accessibility, increased cross-boundary travel by non-Metro residents and service improvements generally. In addition, a sound financial base was maintained, with the revenue/cost ratio slightly above the required 68% level and the operating subsidy requirement within budget.

In 1985 the Commission presented the results of a major study conducted by a Joint Metro/T.T.C. Working Group entitled "Network 2011 — A Rapid Transit Plan for Metropolitan Toronto". The Report effectively consolidated the results of three major rapid transit studies which had been completed at the request of the Metropolitan Council and recommended future rapid transit strategies for the Toronto Transit Commission and the Metropolitan Corporation. This strategy essentially reflects a continuation of the process of incremental rapid transit construction that has been followed in Metropolitan Toronto since 1945, provides strong support for the basic objectives of the Metropolitan Toronto Official Plan and addresses the rapid growth of population outside Metro's boundaries.

In March of 1985, the Commission opened the $196 million, 6.5 km, Scarborough Rapid Transit Line — the first computer-operated rapid transit line in Canada. This line was planned and built as a catalyst to development in the Scarborough City Centre area. Since construction of the line was begun in 1981, the City of Scarborough has issued approximately $1 billion worth of building permits transforming the City Centre area into a focus of business, government and retail activity.

EMPLOYMENT EQUITY INITIATIVES

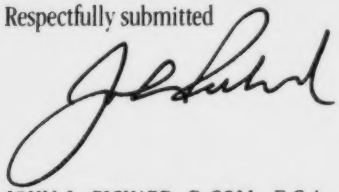
The Equal Employment Opportunity Office produced a report in 1985 recommending a benchmark against which future reports dealing with E.E.O. issues would be evaluated. Its recommendations represent the initial steps which Metropolitan Toronto must take in order to begin re-orientating its personnel practices to ensure that the Municipality embraces the legitimate aspirations of women, visible minorities and the disabled.

CONCLUSION

The year 1985 brought assurances of the continuance of Metro's "Triple A" credit rating from two major rating agencies. One agency stated that its rating of Metro is based on its "strong and diverse economic base, good budgetary performance and declining debt." The other agency expressed the opinion that Metro has a "strong, diversified economy supporting a modest and decreasing level of debt with prime credit quality exhibited also through sound financial operations."

As these independent assessments indicate, the overall financial condition of the Municipality of Metropolitan Toronto remains strong. It should be the aim of this and future Councils to maintain this strength by the pursuit of fiscal strategies geared to long term stability and effective utilization of limited resources.

Respectfully submitted

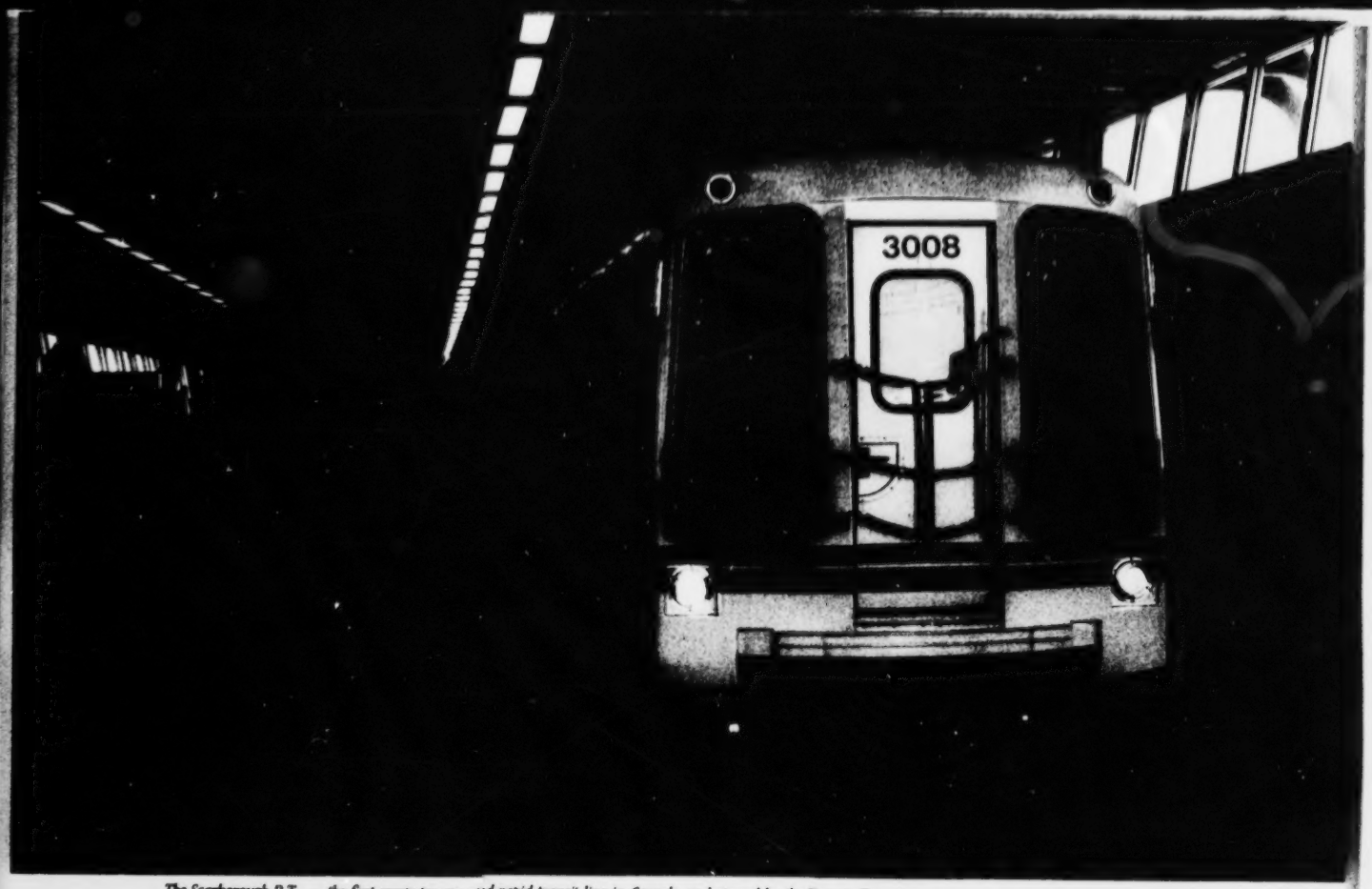


JOHN L. PICKARD, B.COM., F.C.A.
Commissioner of Finance and Treasurer

August, 1986

Officers of the Marine Unit of the Metro Toronto Police Force on patrol at the Toronto Harbour. Water policing operations are directed to providing search, rescue and lifesaving services, and the promotion of safety on the water.

Metro's computer aided ambulance control centre, one of the largest in North America, responded to 308,000 requests for ambulance service in 1985, co ordinating service delivery from 40 ambulance stations across Metro Toronto.



The Scarborough R.T. — the first computer-operated rapid transit line in Canada and opened by the Toronto Transit Commission in March, 1985. T.T.C.'s "Network 2011" plan is designed to meet and encourage further growth in Metro Toronto into the next century.

Orion II — an innovative and high-tech vehicle that "kneels" to facilitate entry for the disabled — part of the Toronto Transit Commission's endeavour to enhance Metro-wide mobility for a growing number of users.

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

12th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1

Allan G. Andrews, C.A., *Metropolitan Auditor*

May 23, 1986

AUDITOR'S REPORT

**The Chairman and Members of the
Metropolitan Council of the
Municipality of Metropolitan Toronto**

I have examined the consolidated balance sheet of the Municipality of Metropolitan Toronto as at December 31, 1985 and the consolidated statement of operations for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Municipality as at December 31, 1985 and the results of its operations for the year then ended in accordance with generally accepted accounting principles for Ontario muncipalities applied, except for the change in the method of accounting for debenture interest as explained in Note 1(b)(i) to the financial statements, on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR
Licence No. 911

MUNICIPALITY OF METROPOLITAN TORONTO

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1985

ASSETS	**1985**	1984
Unrestricted		
Cash	**$ 7,766**	$ 9,761
Investments (note 4)	**187,971**	149,741
User charges receivable	**40,475**	38,756
Accounts receivable (note 13)	**176,045**	160,340
Other current assets	**33,664**	31,931
Long term receivables	**2,405**	2,003
	448,326	392,532
Restricted		
Cash	**115**	247
Investments (note 4)	**18,498**	16,351
Accounts receivable	**653**	471
Other current assets	**126**	120
	19,392	17,189
Capital outlay financed by long term liabilities and to be recovered in future years (notes 2, 5)	**538,072**	641,913
	$1,005,790	$1,051,634

DOLLARS IN THOUSANDS

LIABILITIES AND FUND BALANCES	1985	1984
Current liabilities		
Temporary loans	**$ 5,811**	$ 4,326
Accounts payable and accrued liabilities (notes 7, 8, 9)	**280,734**	210,163
Other current liabilities (note 13)	**32,414**	33,250
	318,959	247,739
Long term payables	**13,536**	12,367
Deferred Ontario Income Tax	**1,013**	813
Net long term liabilities (note 5)	**538,072**	641,913
Fund balances at end of year (notes 10, 11, 12)		
To be used to offset taxation or user charges	**57,308**	55,329
Transit operations	**(17,819)**	(10,614)
Unexpended capital financing (Capital operations not yet permanently financed)	**(2,412)**	17,029
Reserves	**78,078**	70,376
Reserve funds	**19,055**	16,682
	$1,005,790	$1,051,634

MUNICIPALITY OF METROPOLITAN TORONTO

CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1985

SOURCES OF FINANCING	1985	1984
Taxation and user charges		
Requisition on local municipalities	**$1,890,265**	$1,750,843
Less school board requisition	**(1,184,910)**	(1,079,304)
User charges	**545,180**	498,982
Grants		
Government of Canada	**1,855**	4,389
Province of Ontario	**603,172**	550,488
Other		
Investment income	**20,860**	19,503
Sale of land	**2,849**	1,729
Fines	**22,474**	22,558
Other	**34,413**	35,749
Proceeds from the issue of long term liabilities	**11,433**	18,461
Net appropriations from reserves and reserve funds		
Municipal fund balances at beginning of year		
To be used to offset taxation or user charges	**55,329**	53,087
Transit operations	**(10,614)**	(11,391)
Unexpended capital financing	**17,029**	23,148
	$2,009,335	$1,888,242

DOLLARS IN THOUSANDS

APPLIED TO	1985	1984
Current operations		
General government	$ 51,661	$ 49,402
Protection to persons and property	348,191	324,641
Transportation services	542,275	507,783
Environmental services	192,564	173,512
Health services	37,575	35,175
Social and family services	374,775	347,095
Recreation and cultural services	115,186	104,089
Planning and development	8,511	15,917
	1,670,738	1,557,614
Capital operations		
General government	432	628
Protection to persons and property	23,550	10,719
Transportation services	201,091	159,276
Environmental services	38,051	45,620
Health services	3,492	3,942
Social and family services	7,114	7,472
Recreation and cultural services	17,669	13,641
Planning and development	46	32
	291,445	241,330
Net appropriations to reserves and reserve funds	10,075	27,554
Municipal fund balances at end of year		
To be used to offset taxation or user charges	57,308	55,329
Transit operations	(17,819)	(10,614)
Unexpended capital financing (Capital operations not yet permanently financed)	(2,412)	17,029
	$2,009,335	$1,888,242

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1985

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles of municipalities in Ontario as required by the Ontario Ministry of Municipal Affairs and reflect the following policies as set forth in the Municipal Financial Reporting Handbook:

(a) Basis of consolidation

(i) Consolidated Statement of Operations

This statement reflects the consolidated sources of financing and expenditures of the revenue fund, reserves, reserve funds and the capital fund of the Municipality and the following local boards and municipal enterprises:

Metropolitan Board of Commissioners of Police
Metropolitan Licensing Commission
Metropolitan Toronto Waterworks System
Metropolitan Toronto Library Board
Toronto Transit Commission
Gray Coach Lines, Limited
Board of Governors of Exhibition Place
Board of Management of the O'Keefe Centre
Board of Management of the Metropolitan Toronto Zoo
Board of Management of the Guild

Also included therein is the Metropolitan Education Levy requisitioned upon the Metropolitan area municipalities on behalf of the Metropolitan Toronto School Board.

(ii) Consolidated Balance Sheet

This statement reflects the assets and liabilities of the revenue fund, reserve funds and capital fund of the Municipality, together with the assets and liabilities of the local boards and municipal enterprises detailed in Note 1(a)(i).

(iii) Non-Consolidated entities

For those local boards and municipal enterprises of the Municipality which are not consolidated, the Consolidated Balance Sheet does not reflect their assets or liabilities except to the extent of the net long term liabilities issued by the Municipality on their behalf and the amounts due to or from those entities. The Consolidated Statement of Operations does not reflect their revenues and expenditures except to the extent of the Municipality's contribution to those entities.

Those entities which are not consolidated are as follows:

Metropolitan Toronto Housing Company Limited
Metropolitan Toronto School Board

(b) Basis of accounting

(i) Charges for long term liabilities

Sources of financing and expenditures are reported on the accrual basis of

accounting with the exception of principal charges on long term liabilities which are charged against operations in the periods in which they fall due. The principal charges are not accrued for the periods from the latest due dates to the end of the financial year.

Effective January 1, 1985 the Municipality commenced to accrue debenture interest charges in respect of its general and municipal enterprise purposes. In this regard reserves were established in 1982 to permit the phasing in of the fiscal impact of debenture interest accrual over intervening years, annual allocations to the reserves having been provided from current operations.

Included in the 1985 debenture interest charges on long term debt is the sum of $18,555,000 representing such accrual, although this is more than offset by the sum of $19,475,000 transferred from the reserves established for this purpose.

(ii) Revenue and expenditure recognition

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(iii) Capital outlay financed by long term liabilities and to be recovered in future years

The historical cost and accumulated depreciation of fixed assets are not reported for municipal purposes. Instead the "Capital outlay financed by long term liabilities and to be recovered in future years," which represents the outstanding principal portion of unmatured long term liabilities for municipal expenditures, the value of long term obligations arising out of capital leases entered into by the Municipality, and capital funds transferred to local boards and municipal enterprises of the Municipality, is reported on the Consolidated Balance Sheet.

(iv) Liabilities payable in foreign currencies

Long term debt payable in U.S. funds has been converted into Canadian funds at the exchange rates prevailing at the time the debt was incurred.

(v) Inventories

Inventories of supplies amounting to $21,284,000 (1984 — $20,490,000) and included in "Other current assets — Unrestricted" on the Consolidated Balance Sheet are valued at average cost.

(vi)Reserves and reserve funds

Under Ontario municipal accounting practice Metropolitan Council may, from time to time, establish reserves or reserve funds for anticipated potential or contingent expenditures or events. Provisions to such reserves or reserve funds are in the main accounted for as expenditures of the revenue funds.

2. CAPITAL OUTLAY FINANCED BY LONG TERM LIABILITIES AND TO BE RECOVERED IN FUTURE YEARS

Some capital outlay to be recovered in future years does not represent a burden on general municipal revenues as it is to be recovered either from revenue of the School Board or from the individual municipal enterprises as follows:

	DOLLARS IN THOUSANDS	
	1985	1984
Metropolitan Toronto School Board	**$95,917**	$156,666
Metropolitan Toronto Waterworks System	**65,875**	75,575
Toronto Transit Commission	**18,073**	20,723

Capital outlays, fixed asset purchases and transfers of capital funds totalling $87,550,000 (1984 — $62,681,000) which have been financed from current revenues are reported on the Analysis of Current Operations.

3. TRUST FUNDS

Trust funds administered by the Municipality amounting to $19,632,000 (1984 — $18,323,000) have not been included in the Consolidated Balance Sheet nor have their operations been included in the Consolidated Statement of Operations.

4. INVESTMENTS

The unrestricted investments of $187,971,000 (1984 — $149,741,000) and restricted investments of $18,498,000 (1984 — $16,351,000) are recorded on the Consolidated Balance Sheet at cost. The market value of these investments at the end of the year approximates cost.

5. NET LONG TERM LIABILITIES

(a) Debenture debt

Under the provisions of the Municipality of Metropolitan Toronto Act, the Metropolitan Corporation has the sole responsibility for borrowing money for its own account, the accounts of its local boards and municipal enterprises, and for the accounts of its area municipalities and their local boards and enterprises. It also assumed, under the provisions of the Act, certain debt incurred directly by its area municipalities prior to this statutory responsibility. Where money is borrowed or debt assumed on behalf of other bodies, repayment of the related debt servicing requirements is made by these bodies to the Municipality.

(b) Other long term obligations

Included in this category are:

The long term obligations arising out of lease purchase agreements entered into by the Municipality in respect of the Animal Domain Ride vehicles at the Metropolitan Toronto Zoo amounting to $2,760,000 (1984 — $3,103,000); the purchase of computer equipment by the Metropolitan Police Commission in the sum of $3,114,300 (1984 — $616,000); and the purchase of computer equipment by the Metropolitan Department of Ambulance Services in the sum of $196,000 (1984 — $245,000).

A long term interest free loan payable to the Province of Ontario in connection with the capital cost of the expansion of Exhibition Stadium amounting to $7,142,000 (1984 — $7,715,000).

(c) Reconciliation of gross long term liabilities with net long term liabilities as reported on the Consolidated Balance Sheet

		DOLLARS IN THOUSANDS
Debenture debt		
Total principal amount outstanding and incurred by the Municipality		
Own account	$648,857	
Local boards and municipal enterprises	195,338	
Metropolitan Toronto School Board	107,783	
Area municipalities	429,972	$1,381,950
Total principal amount oustanding incurred by area municipalities and assumed by the Municipality		
Own account	602	
Metropolitan Toronto School Board	14	616
		1,382,566
Less principal amount outstanding payment of which is to be recovered from others		
Area municipalities	429,972	
Province of Ontario (in respect of assets assumed)	13,444	443,416
Less value of funds accumulated to retire outstanding long term liabilities		
Sinking funds		
Own account $ 290 699		
Local boards and municipal enterprises 111,390		
Metropolitan Toronto School Board 11,880	413,969	
Ministry of the Environment debt retirement fund	322	414,291
Net long term liabilities — debenture debt		524,859
Other long term obligations		
Capital leases	6,071	
Long term loans	7,142	13,213
Total net long term liabilities		$ 538,072

Analyzed as follows:

To be recovered from the revenues of the Metropolitan Toronto School Board	$ 95,917
To be recovered from the general municipal revenues of the municipality and its local boards and municipal enterprises as detailed in Note 1(a)(i)	442,155
	$ 538,072

(d) Net long term liabilities — future redemption

Of the net long term liabilities reported in (c) of this note, $211,753,000 in principal payments are payable from 1986 to 1990, $150,905,000 from 1991 to 1995 and $48,175,000 thereafter, and are summarized as follows:

	DOLLARS IN THOUSANDS		
	1986 to 1990	1991 to 1995	1996 and therafter
General municipal revenues	$121,938	$100,946	$32,173
Metropolitan Toronto Waterworks System	19,067	17,880	6,708
Toronto Transit Commission	8,049	8,135	—
Metropolitan Toronto School Board	62,699	23,944	9,294
	$211,753	$150,905	$48,175

(e) Translation of net long term liabilities payable in U.S. funds

Included in the total of $538,072,000 is an amount of $168,999,000 payable in U.S. funds and converted at rates of exchange prevailing at the time the liability was incurred. If translated at the exchange rate prevailing at December 31, 1985, the Canadian dollar equivalent of this amount of debt would be increased by $54,546,000 (1984 — $47,146,000).

(f) Ontario Municipal Board

Approval of the Ontario Municipal Board has been obtained for the long term liabilities reported in (c) of this note issued in the name of the Municipality.

(g) Long term liabilities incurred on behalf of area municipalities

The Municipality is contingently liable for long term liabilities incurred on behalf of its area municipalities. The total amount outstanding as at December 31, 1985 was $429,972,000 (1984 — $429,789,000) and is not recorded on the Consolidated Balance Sheet. During the year long term liabilities of $28,146,000 (1984 — $31,383,000) were incurred on behalf of the Metropolitan area municipalities and are not reflected on the Consolidated Statement of Operations.

6. CHARGES FOR LONG TERM LIABILITIES

Payments and recoveries in respect of the total debt incurred by the Municipality for its own account and on account of its local boards and municipal enterprises, including the Metropolitan Toronto School Board, are set out below. Also included are payments in respect of capital leases entered into by the Municipality, and, where applicable, loan repayments to the Province of Ontario in respect of the long term loan for the expansion of Exhibition Stadium.

	DOLLARS IN THOUSANDS	
	1985	1984
Principal payments including contributions to sinking funds and to the Ministry of the Environment debt retirement fund	**$ 56,728**	$ 56,086
carried forward	**$ 56,728**	$ 56,086

	DOLLARS IN THOUSANDS	
brought forward	**$ 56,728**	$ 56,086
Interest	**118,473**	97,157
	175,201	153,243
Recoveries from the Metropolitan Toronto School Board		
Principal	**20,528**	19,207
Interest	**16,602**	15,578
	37,130	34,785
Charges for long term liabilities recovered from general municipal revenues of the Municipality and its local boards and municipal enterprises as detailed in Note 1(a)(i)	**$138,071**	$118,458

The amount of $138,071,000 is charged to expenditures on the Consolidated Statement of Operations under the appropriate functional classifications and consists of principal payments of $36,200,000 and interest payments of $101,871,000. Payments of interest and principal on debt issued in U.S. currency included in these amounts are reflected at the actual Canadian dollar costs incurred. Principal payments include the sum of $2,730,000 (1984 — $2,198,000) which reflects the excess of costs of conversion to U.S. funds over the corresponding principal amounts recorded at the time the debt was issued.

7. CONTRACTUAL OBLIGATIONS

Capital fund

Property settlements outstanding

Due to the lengthy processes involved in the agreement of the valuation of properties expropriated for capital improvements, there were a number of settlements outstanding at the end of the year. In view of the complexities of arriving at valuations of such properties, no liability has been brought to account or determined for such property settlements outstanding as at December 31, 1985.

Revenue fund

Contribution towards domed stadium

Metropolitan Council, on January 22, 1985, approved a contribution towards the capital cost of construction of a domed stadium within the boundaries of Metropolitan Toronto in a total amount not to exceed the lesser of $30 million, or 20 per cent of the total cost of the project. This contribution was approved as a current expenditure to be financed over a period of five years commencing in 1985 through the establishment and maintenance of a reserve fund with provision being made annually in the current estimates as follows:

1985	$ 500,000
1986	$7,200,000
1987	$7,200,000
1988	$7,200,000
1989	$7,900,000

In addition, Council adopted as policy that it would not be responsible for any

operating costs or financial losses of the stadium, nor provide any grants to related organizations.

8. PAST SERVICE PENSION COSTS

In addition to regular payments in respect of current service, the Municipality is obligated at December 31, 1985 for an amount of $87,520,000 (1984 — $109,824,000) in respect of past service relative to various pension and benefit plans as follows:

DOLLARS IN THOUSANDS

	To be recovered from — General municipal revenue	Municipal enterprises	Total
1986—1988	$32,153	$ 880	$33,033
1989—1991	31,698	880	32,578
1992—1994	21,615	294	21,909
	$85,466	$2,054	$87,520

No provision has been made in the accounts for this obligation, and the expense is recorded as funded annually. In this regard, expenditure of $12,226,000 was funded in 1985 (1984—$12,319,000) and is reported on the Consolidated Statement of Operations.

9. VESTED SICK LEAVE BENEFITS

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the employment of the Municipality or some of its local boards and municipal enterprises.

Metropolitan Council on April 23, 1982, approved the establishment of a Corporate Sick Pay Reserve Fund to cover payouts to employees of the Metropolitan Corporation, the Metropolitan Waterworks System and the Metropolitan Toronto Housing Company Limited, such that contributions to the fund are sufficient to offset expected payouts over a given period of time. Effective January 1, 1984, eligible employees of the Board of Governors of Exhibition Place, the Board of Management of the Metropolitan Toronto Zoo and the Metropolitan Toronto Library Board became participants in the Corporate Sick Pay Reserve Fund.

The contributions to the fund are determined on the basis of a 10-year simulation of projected reserve fund activity with the projections of withdrawals based on a 10-year forecast period, the entire projection process being repeated every year. It is anticipated that this process will stabilize the financial impact on the Corporation and other participants in respect of future payment of vested sick leave benefits.

The following table details, in respect of employees of the Metropolitan Corporation and other participants, the contributions to the fund and the amount of vested contingent liability as at December 31, 1985.

DOLLARS IN THOUSANDS

	Contributions — 1985	1986 to 1988	1989 to 1991	1992 to 1995	Vested liability Dec. 31, 1985
Municipality	$4,067	$7,025	$7,025	$9,367	$73,895
Other	387	552	552	736	5,110

As at December 31, 1985, the balance of the Corporate Sick Pay Reserve Fund stood at $16,215,000 (1984—$14,371,000).

10. CONVERSION TO MUNICIPAL BASIS OF ACCOUNTING

For purposes of consolidation in these financial statements the operations and results of The Toronto Transit Commission and Gray Coach Lines, Limited, accounted for on a commercial basis, have been converted to a municipal basis of accounting. This restatement results in a reduction in equity at December 31 over the figures reported on a commercial basis as follows:

	DOLLARS IN THOUSANDS	
	1985	1984
Equity — Commercial basis	**$59,075**	$58,503
Equity (deficit) — Municipal basis	**(17,819)**	(10,614)
Net reduction in equity due to restatement	**$76,894**	$69,117

11. MUNICIPAL FUND BALANCES AT END OF YEAR

The balance on the Consolidated Statement of Operations of municipal equity of $37,077,000 (1984 — $61,744,000) at the end of the year is comprised of the following:

	DOLLARS IN THOUSANDS	
	1985	1984
For general reduction of taxation	**$37,589**	$35,738
For general reduction of user charges	**19,719**	19,591
	57,308	55,329
Transit operations — deficit arising out of adoption of municipal accounting conventions	**(17,819)**	(10,614)
Acquisition of fixed assets to be recovered through taxation	**(43,068)**	(26,007)
Acquisition of fixed assets to be financed from the proceeds of long term liabilities	**(43,068)**	(26,007)
Funds available for the acquisition of fixed assets	**83,724**	69,043
	(2,412)	17,029
	$37,077	$61,744

Approval of the Ontario Municipal Board has been obtained for the pending issues of long term liabilities and for those commitments to be financed from revenues beyond the term of Council. In regard to the latter, the obligations relate essentially to long term operating leases for office space and equipment for the period 1986 to 2005 and amount to $21,215,000.

12. RESERVES AND RESERVE FUNDS

The total balance of reserves and reserve funds of $97,133,000 (1984 — $87,058,000) is made up of the following:

	DOLLARS IN THOUSANDS	
Set aside for specific purposes by Council	**1985**	1984
Reserves		
Exchange stabilization	**$ 4,698**	$ 2,465
Replacement of equipment	**4,654**	3,882
Emergency response facilities	**—**	445
Sick pay benefits	**2,274**	1,725
Debenture interest accrual	**—**	14,250
Capital financing stabilization	**23,503**	20,363
Water rates stabilization	**10,000**	—
Transit current purposes	**6,500**	5,000
Transit capital purposes	**5,500**	5,500
Parks and recreation programs & facilities	**1,089**	1,089
Contingencies	**19,860**	15,657
	78,078	70,376
Reserve funds		
Insurance	**1,149**	697
Sick pay benefits	**16,205**	14,371
Waterworks purposes	**78**	71
Parks and recreation programs & facilities	**1,475**	1,423
Other	**22**	—
	18,929	16,562
	97,007	86,938
Set aside for specific purposes by legislation, regulation or agreement		
Reserve funds		
Contingencies re. Lakeview Sewage Treatment Plant	**126**	120
	$97,133	$87,058

13. SINKING FUNDS SURPLUS MONIES

The Sinking fund balances reflected in the value of net long term liabilities at the end of the year do not include specific accumulations at that date in excess of the total related debt. These accumulations amounting to $17,383,000 in 1985 (1984 — $18,848,000) are subject to a decision of The Metropolitan Council as to their use for either capital or revenue purposes. Accordingly, while they have been recorded as receivable, corresponding amounts have been set up as deferred revenue and are included on the Consolidated Balance Sheet under "Other Current Liabilities."

14. CAPITAL FINANCING STABILIZATION RESERVE

(a) General municipal purposes

Metropolitan Council approved the creation of a Capital Financing Stabilization Reserve, commencing in 1982, for the purpose of stabilizing the contribution of the revenue fund towards capital expenditure at a level no greater than 50 per cent of the actual net capital financing requirements for the year. The current policy of Council for financing net capital expenditures is to meet up to 50 per cent of the required financing by an annual current levy and transfers, where necessary and available, from the Stabilization Reserve, the balance being provided from excess sinking fund earnings and debenture proceeds; conversely if the annual current levy produces a sum of funds in excess of the 50 per cent guideline, such excess is transferred to the Reserve.

Resulting from 1985 capital operations and in accord with this policy, an amount of $51,308,000 was utilized from current operations to finance capital expenditures while $1,704,000 was transferred to reserve.

(b) Waterworks purposes

Metropolitan Council aproved the creation of a Reserve similar to the above for Waterworks purposes. The balance of the Reserve was $2,707,000 as at December 31, 1985.

15. RESERVE FOR ARBITRATION CONTINGENCIES

For some years certain matters have been in arbitration which could give rise to potential liabilities. Funding to cover these contingencies has been provided each year in the annual estimates and the lack of resolution in each year has resulted in these unspent amounts forming part of the surplus of that year. On April 19, 1985, Metropolitan Council approved the establishment of a reserve for arbitration contingencies, and the transfer of an amount of $15,000,000 to this reserve for the 1984 fiscal year in respect of such contingencies.

16. COMPARATIVE FIGURES

Certain of the 1984 figures presented here for comparative purposes have been reclassified to conform with the current year's presentation.

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF CURRENT OPERATIONS

YEAR ENDED DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	1985 Budget	**1985 Actual**	Budget Comparison	1984 Actual
Surplus at beginning of year	$ 44,458	**$ 44,715**	$ 257	$ 41,696
Revenue				
Taxation and user charges				
Requisition on local municipalities	1,886,647	**1,890,265**	3,618	1,750,843
Less school board requisition	(1,184,529)	**(1,184,910)**	(381)	(1,079,304)
User charges	528,067	**544,987**	16,920	498,801
Grants				
Government of Canada	1,279	**1,026**	(253)	2,512
Province of Ontario	465,744	**460,665**	(5,079)	426,715
Other				
Investment income	16,197	**18,918**	2,721	17,804
Sale of land	3,075	**508**	(2,567)	—
Fines	21,205	**22,474**	1,269	22,558
Other	28,859	**31,298**	2,439	16,049
	1,766,544	**1,785,231**	18,687	1,655,978
Expenditure				
General government	66,393	**65,038**	1,355	68,927
Protection to persons and property	370,588	**363,631**	6,957	341,084
Transportation services	581,938	**584,382**	(2,444)	527,752
Environmental services	211,003	**224,937**	(13,934)	198,530
Health services	42,944	**40,726**	2,218	39,271
Social and family services	388,576	**377,705**	10,871	354,675
Recreation and cultural services	125,896	**125,474**	422	113,301
Planning and development	8,911	**8,564**	347	9,419
	1,796,249	**1,790,457**	5,792	1,652,959
Surplus at end of year	$ 14,753	**$ 39,489**	$24,736	$ 44,715

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF CAPITAL OPERATIONS

YEAR ENDED DECEMBER 31, 1985

	DOLLARS IN THOUSANDS	
	1985	1984
Unexpended capital financing at beginning of year	**$ 17,029**	$ 23,148
Sources of funds		
Long term liabilities incurred	**11,645**	18,901
Ontario grants	**142,507**	123,773
Other	**26,566**	28,058
Appropriations from other funds		
Current operations	**87,550**	62,681
Reserves	**2,347**	1,921
Reserve funds	**1,676**	355
	272,291	235,689
Expenditures and transfers		
General government	**455**	717
Protection to persons and property	**23,550**	10,719
Transportation services	**201,172**	159,284
Environmental services	**38,185**	45,893
Health services	**3,494**	3,942
Social and family services	**7,115**	7,473
Recreation and cultural services	**17,715**	13,748
Planning and development	**46**	32
	291,732	241,808
Unexpended capital financing (Capital operations not yet permanently financed) at end of year	**$ (2,412)**	**$ 17,029**

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF RESERVES AND RESERVE FUNDS
YEAR ENDED DECEMBER 31, 1985

RESERVES	Exchange Stabilization	Equipment Replacement	Emergency Response
Balance at beginning of year	$2,465	$ 3,882	$ 445
Appropriations from (to) current operations	2,233	5,086	
Appropriations from (to) capital operations		(2,347)	
Appropriations from (to) reserve funds		(4)	
Other contributions		79	
Interest earned			
Other charges		(2,042)	(445)
Balance at end of year	$4,698	$ 4,654	$ —

RESERVES	C.N.E.A. Vested	Arbitration Contingencies
Balance at beginning of year	$89	$15,000
Appropriations from (to) current operations		
Appropriations from (to) capital operations		
Appropriations from (to) reserve funds		
Other contributions		
Interest earned		
Other charges	$89	
Balance at end of year		$15,000

DOLLARS IN THOUSANDS

Police Central Sick Pay	Parkland Acquisition	Debenture Interest Accrual	Major Expenditures Variations	Capital Financing Stabilization
$1,725	$1,000	$14,250	$ 657	$20,363
699		(14,250)	4,203	3,140
32				
(182)				
$2,274	$1,000	$ —	$4,860	$23,503

Water Rates Stabilization	Transit Current Operations	Gray Coach Terminals	**Total 1985**	Total 1984
$ —	$ 5,000	$5,500	**$70,376**	$45,373
10,000	8,265		**19,376**	45,629
			(2,347)	(1,921)
			(4)	(4)
			79	181
			32	16
	(6,765)		**(9,434)**	(18,893)
$10,000	$ 6,500	$5,500	**$78,078**	$70,376

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF RESERVES AND RESERVE FUNDS (continued)
YEAR ENDED DECEMBER 31, 1985

RESERVE FUNDS	M.O.E. Contingencies	O'Keefe Capital Improvements	Stadium Capital Improvements
Balance at beginning of year	$120	$339	$885
Revenue			
Contributions from current operations		316	688
Contributions from capital operations			
Contributions from reserves			
Contributions from others			
Interest earned	6	39	54
	6	355	742
Expenditure			
Contributions to current operations			
Contributions to capital operations		236	1,440
Other charges			
		236	1,440
Balance at end of year	$126	$458	$ 187

DOLLARS IN THOUSANDS

Insurance	Corporate Sick pay	Regent Park Community Centre	C.N.E.A. Vested	G. Sinclair Scholarship
$ 697	$14,371	$49	$150	$—
954	4,361			22
7				
	4			
100	89			
101	1,656	5	13	2
1,162	6,110	5	13	24
			13	
710	4,276			2
710	4,276		13	2
$1,149	$16,205	$54	$150	$22

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF RESERVES AND RESERVE FUNDS (continued)

YEAR ENDED DECEMBER 31, 1985

RESERVE FUNDS	Central Laundry Equipment Replacement	Animal Transactions
Balance at beginning of year	$ —	$ —
Revenue		
Contributions from current operations	120	
Contributions from capital operations		
Contributions from reserves		
Contributions from others		114
Interest earned	1	8
	121	122
Expenditure		
Contributions to current operations		
Contributions to capital operations		
Other charges	121	14
	121	14
Balance at end of year	$ —	$108

DOLLARS IN THOUSANDS

Covered Stadium	Easement	**Total 1985**	Total 1984
$ —	$71	**$16,682**	$14,131
500		**6,961**	5,449
		7	5
		4	4
		303	83
18	7	**1,910**	1,683
$518	7	**9,185**	7,224
		13	1
		1,676	355
		5,123	4,317
		6,812	4,673
$518	$78	**$19,055**	$16,682

CONSOLIDATED LOCAL BOARDS, COMMISSIONS AND AGENCIES

Metropolitan Waterworks System
439 University Avenue
10th Floor
Toronto, Ontario
M5G 1Y8

Metropolitan Toronto Library Board
789 Yonge Street
Toronto, Ontario
M4W 2G8

Toronto Transit Commission
1900 Yonge Street
Toronto, Ontario
M4S 1Z2

Gray Coach Lines Ltd.
580 Commissioners Street
Toronto, Ontario
M4M 1A7

Board of Governors of Exhibition Place
Exhibition Place
Toronto, Ontario
M6K 3C3

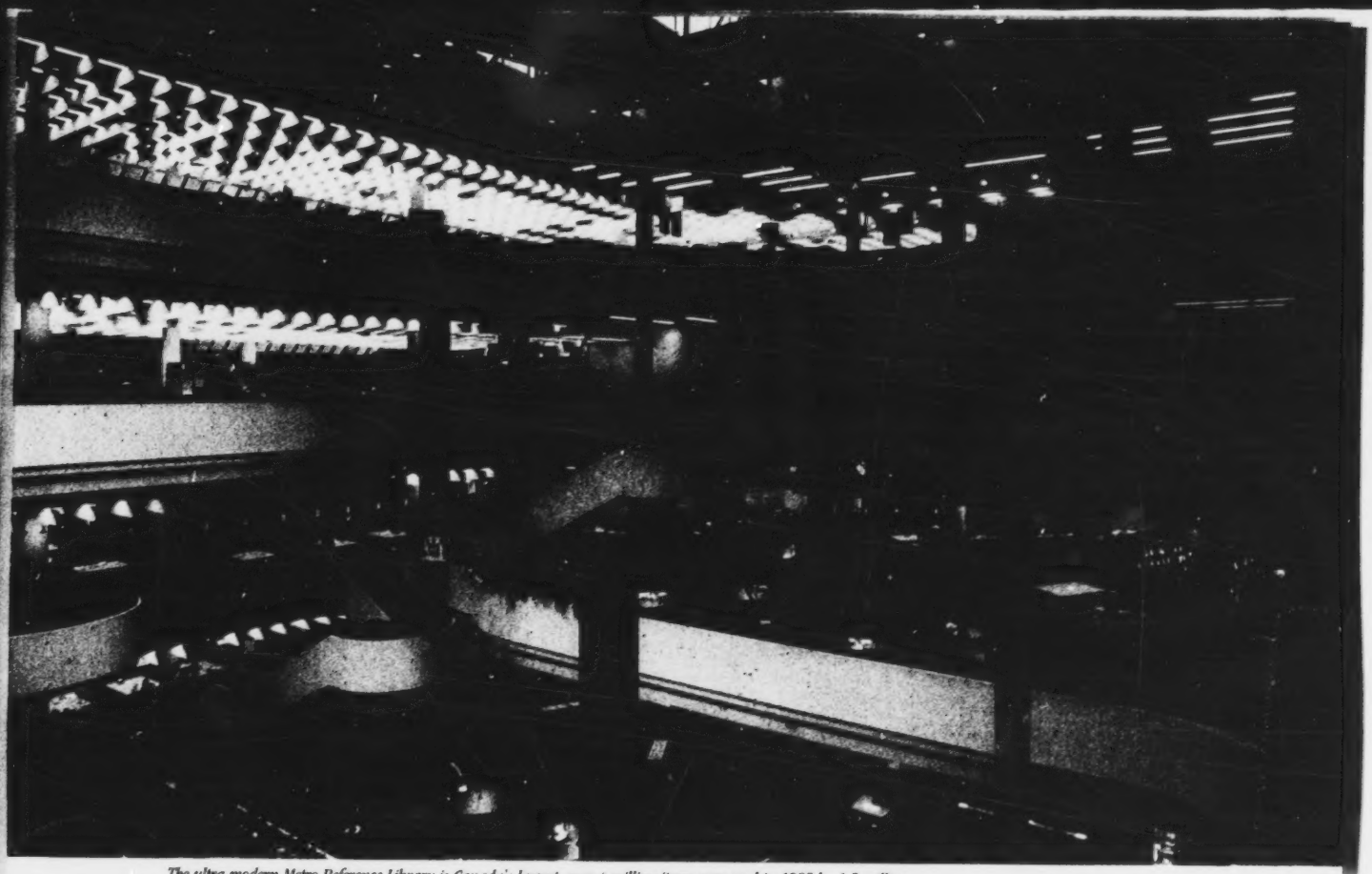
Board of Management of the Metropolitan Toronto Zoo
Box 280
West Hill, Ontario
M1E 4R5

Board of Management of the O'Keefe Centre
1 Front Street East
Toronto, Ontario
M5E 1B2

Board of Management of the Guild
Guildwood Parkway
Scarborough, Ontario
M1E 1P6

Catering operations in high gear at Seaton House — a Metro operated hostel for homeless indigents. The Department of Community Services objectives lie in enhancing the quality of life and ability to cope of those in need by providing those social services characteristic of a responsive and considerate society.

Residents at True Davidson Acres Home for the Aged — Metro's Community Services provides seniors with opportunities for active and fulfilling lifestyles.



The ultra-modern Metro Reference Library is Canada's largest; over 4 million items were used in 1985 by 1.5 million people.

Exhibition Place, with Exhibition Stadium in the background — site of many trade, industrial and consumer shows, and agricultural, theatrical, musical and other events, including the twenty-day Canadian National Exhibition.

Statistical Review

Metropolitan Assessment 64
Distribution of Metropolitan Levies 64
Population, Tax Levies and Tax Collections 65
Current Operations 66
Capital Operations 68
Reserves and Reserve Funds 70
Debenture Debt 71

METROPOLITAN ASSESSMENT
LAST SIX FISCAL YEARS

DOLLARS IN THOUSANDS, EXCEPT PER CAPITA FIGURES

Taxation Year	Residential*	Commercial	Total	Total Assessment per Capita
1980	4,227,153	3,800,787	8,027,940	3,798
1981	4,266,197	3,820,133	8,086,330	3,831
1982	4,375,412	4,021,747	8,397,159	3,956
1983	4,489,762	4,045,484	8,535,246	4,018
1984	4,579,090	4,133,651	8,712,741	4,087
1985	4,623,797	4,211,612	8,835,409	4,117

*The above statement records unweighted assessment for both residential and commercial purposes. However, as indicated on page xx, commencing in 1984 provincial legislative changes provide for the Metropolitan general tax levy, distributed to each area municipality, to reflect weighted residential assessment.

DISTRIBUTION OF METROPOLITAN LEVIES — 1985

DOLLARS IN THOUSANDS

	—General Levy—		—Education Levy—				—Total Levy—	
Area Municipality	Levy	%	Public	Secondary	Total	%	Amount	%
City of Toronto	$255,820	40.71	$264,069	$216,943	$481,012	41.09	$736,832	40.95
City of North York	144,397	22.98	140,533	126,344	266,877	22.79	411,274	22.86
City of Scarborough	94,262	15.00	94,825	82,394	177,219	15.14	271,481	15.09
City of Etobicoke	91,052	14.49	85,350	79,401	164,751	14.07	255,803	14.22
City of York	22,897	3.64	21,189	20,475	41,664	3.56	64,561	3.59
Borough of East York	20,007	3.18	21,304	17,905	39,209	3.35	59,216	3.29
	$628,435	100.00	$627,270	$543,462	$1,170,732	100.00	$1,799,167	100.00

COMPARATIVE STATEMENT OF POPULATION, TAX LEVIES AND COLLECTION OF THE METROPOLITAN AREA MUNICIPALITIES

DOLLARS IN THOUSANDS, EXCEPT PER CAPITA FIGURES

Year	Population	Total Current Tax Levy		Tax Collection as % of Current Tax Levy	
		Amount	Per Capita	Current	Current and Arrears
1976	2,156,262	$ 993,538	$ 461	94.92	99.66
1977	2,150,151	1,160,066	540	94.85	97.42
1978	2,137,867	1,228,970	575	95.70	100.35
1979	2,155,724	1,343,837	623	95.35	99.55
1980	2,113,552	1,471,971	696	96.24	101.40
1981	2,110,973	1,650,999	782	95.83	99.83
1982	2,122,369	1,891,075	891	96.04	99.96
1983	2,124,085	2,091,270	985	96.36	100.37
1984	2,131,942	2,283,463	1,071	96.94	100.60
1985	2,145,900	2,457,939	1,145	97.32	99.73

STATEMENT OF TAX LEVIES AND COLLECTIONS OF THE METROPOLITAN AREA MUNICIPALITIES, 1985

DOLLARS IN THOUSANDS, EXCEPT PER CAPITA FIGURES

Area Municipality	Current Tax Levies (including penalties and interest)					Tax Collections as % of Current Tax Levies	
	Own Purposes	Metropolitan Corporation	Education	Total Taxation	Per Capita	Current	Current and Arrears
City of Toronto	$236,028	$260,855	$ 520,495	$1,017,378	$1,700	96.87	100.36
City of North York	109,233	143,221	294,632	547,086	987	97.57	98.12
City of Scarborough	87,546	92,291	190,822	370,659	800	97.97	100.08
City of Etobicoke	68,066	91,391	183,820	343,277	1,151	97.68	100.54
City of York	28,734	22,723	47,546	99,003	740	96.07	98.62
Borough of East York	18,251	20,120	42,165	80,536	825	98.31	99.04
	$547,858	$630,601	$1,279,480	$2,457,939	$1,145	97.32	99.73

CONSOLIDATED CURRENT REVENUES BY SOURCE
LAST SIX FISCAL YEARS

Year	Taxation	Ontario Grants	User Charges	Other Grants	Investment Income
1980	$448,909	$262,282	$290,531	$ 49	$14,666
1981	499,092	295,238	342,713	291	29,244
1982	549,562	353,214	395,845	98	25,167
1983	610,693	399,335	448,809	2,111	13,631
1984	671,539	426,715	498,801	2,512	17,804
1985	705,355	460,665	544,987	1,026	18,918

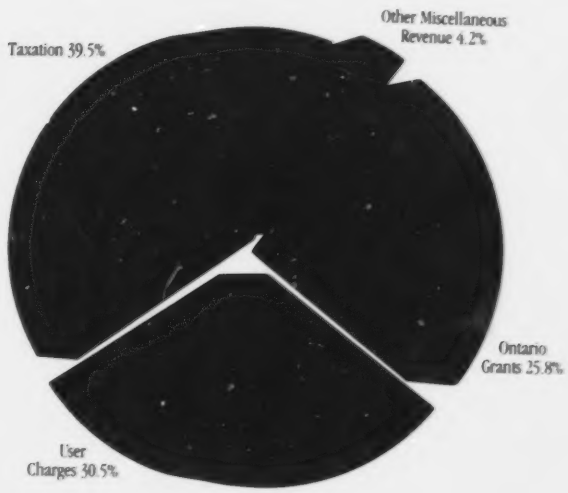
CONSOLIDATED CURRENT EXPENDITURES BY FUNCTION
LAST SIX FISCAL YEARS

Year	General Government	Protection to Persons and Property	Transportation Services	Environmental Services	Health Services	Social and Family Services
1980	$37,908	$222,295	$344,379	$154,509	$24,171	$174,827
1981	33,828	254,961	410,663	154,669	25,671	203,701
1982	62,101	291,740	466,390	166,631	30,155	261,716
1983	49,646	315,461	506,369	184,710	34,368	322,282
1984	68,927	341,084	527,752	198,530	39,271	354,675
1985	65,038	363,631	584,382	224,937	40,726	377,705

1985 CONSOLIDATED CURRENT REVENUES BY SOURCE

DOLLARS IN THOUSANDS

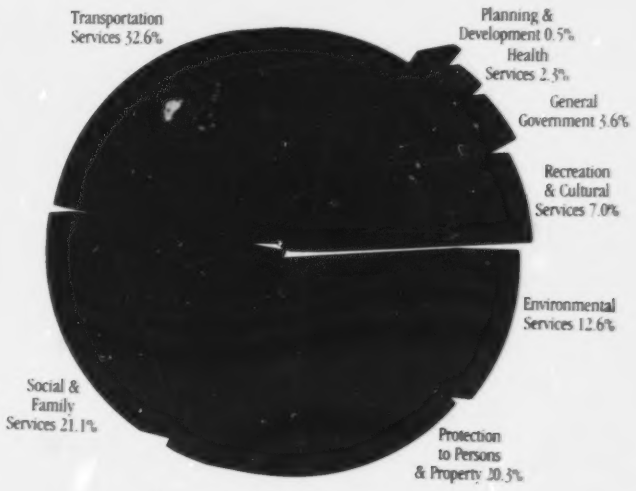
Fines	Other	**Total**
$13,384	$11,700	**$1,041,521**
13,925	9,638	**1,190,141**
21,185	8,496	**1,353,567**
22,728	23,454	**1,520,761**
22,558	16,049	**1,655,978**
22,474	31,806	**1,785,231**



1985 CONSOLIDATED CURRENT EXPENDITURES BY FUNCTION

DOLLARS IN THOUSANDS

Recreation and Cultural Services	Planning and Development	**Total**
$ 69,709	$17,134	**$1,044,932**
80,115	10,147	**1,173,755**
88,224	8,487	**1,375,444**
98,650	5,128	**1,516,614**
113,301	9,419	**1,652,959**
125,474	8,564	**1,790,457**


Transportation Services 32.6%
Planning & Development 0.5%
Health Services 2.5%
General Government 3.6%
Recreation & Cultural Services 7.0%
Environmental Services 12.6%
Social & Family Services 21.1%
Protection to Persons & Property 20.3%

CONSOLIDATED CAPITAL FINANCING BY SOURCE
LAST SIX FISCAL YEARS

DOLLARS IN THOUSANDS

Year	Long-Term Liabilities Incurred	Contributions From Own Funds	Ontario Grants	Other	**Total**
1980	$15,413	$57,327	$ 45,230	$22,570	**$140,540**
1981	17,501	65,174	64,251	14,867	**161,793**
1982	10,145	56,449	86,771	16,848	**170,213**
1983	38,160	97,819	115,171	24,125	**275,275**
1984	18,901	64,957	123,773	28,058	**235,689**
1985	11,645	91,573	142,507	26,566	**272,291**

CONSOLIDATED CAPITAL EXPENDITURES BY FUNCTION
LAST SIX FISCAL YEARS

Year	General Government	Protection to Persons and Property	Transportation Services
1980	$131	$ 6,428	$ 71,131
1981	801	7,022	92,874
1982	658	5,140	118,917
1983	432	21,457	174,675
1984	717	10,719	159,284
1985	455	23,550	201,172

CAPITAL EXPENDITURES — 1985
CAPITAL PROJECTS ON WHICH EXPENDITURES EXCEEDED $5 MILLION

DOLLARS IN THOUSANDS

	1985 Gross Expenditure	Estimated Gross Cost
Purchase of 126 Subway Cars	**$48,221**	$185,800
Scarborough Light Rail Transit Line	**17,444**	196,000
Purchase of 52 Light Rail Vehicles	**17,082**	104,750
Main Sewage Treatment Plant Stage 3	**14,976**	197,250
Transit — Parkdale/Hillcrest Replacement Site	**11,079**	36,200
Expansion of Police Headquarters	**7,029**	60,900

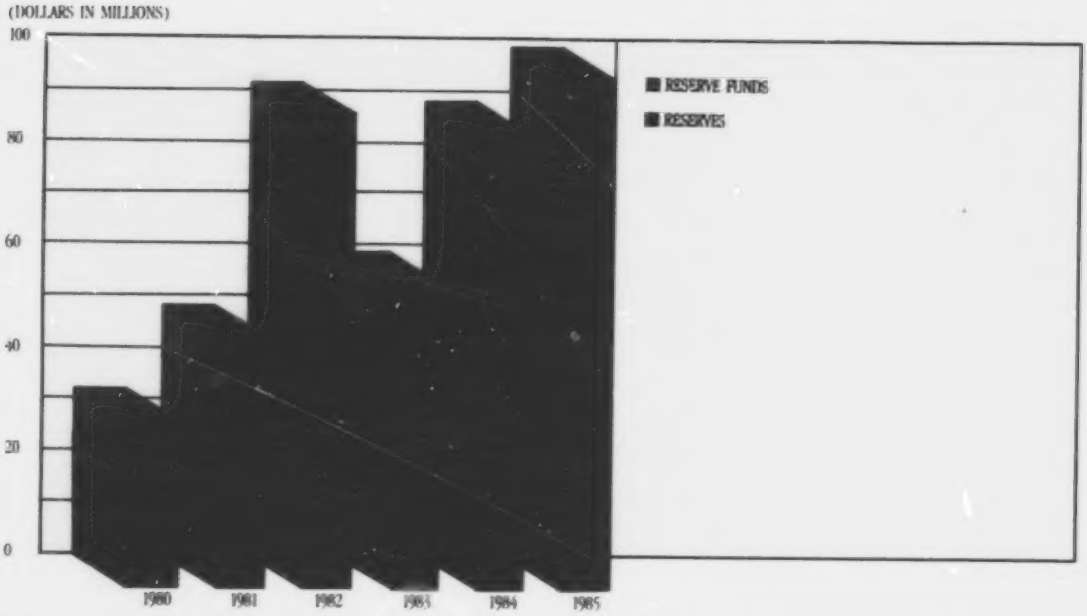
DOLLARS IN THOUSANDS

Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	**Total**
$29,867	$5,238	$6,554	$ 6,578	$55	**$125,982**
25,528	1,996	3,929	8,169	9	**140,328**
33,244	2,649	5,317	9,183	25	**175,133**
76,208	2,822	6,845	10,366	20	**292,825**
45,893	3,942	7,473	13,748	32	**241,808**
38,185	3,494	7,115	17,715	46	**291,732**

CONSOLIDATED RESERVES AND RESERVE FUNDS
LAST SIX FISCAL YEARS

DOLLARS IN THOUSANDS

Year	**Total Reserves and Reserve Funds**	Total As Percentage of Taxation	Total As Percentage of Consolidated Current Expenditures
1980	**$31,174**	6.9	3.0
1981	**47,918**	9.6	4.1
1982	**91,363**	16.6	6.7
1983	**59,504**	9.7	3.9
1984	**87,058**	13.0	5.3
1985	**97,133**	13.8	5.4



Additional information on "Reserves and Reserve Funds" is contained on page 29 of this Report.

SUMMARY OF TOTAL DEBENTURE DEBT MATURITIES OF THE METROPOLITAN CORPORATION AND AREA MUNICIPALITIES
AS AT DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	Metropolitan Corporation Direct Debt				Debt of Area Municipalities Assumed by Metropolitan Corporation		Total Debt of Metropolitan Corporation and the Area Municipalities	
	Instalment		Sinking Fund					
	Can.	U.S.	Can.	U.S.	Can.	U.S.	Can.	U.S.
1986	$ 36,884	$ 6,997	$ 61,598	$ 73,513	$ 92		$ 98,574	$ 80,510
1987	34,541	6,585	76,207	33,405	66		110,814	39,990
1988	30,227	6,382	30,483	107	66		60,776	6,489
1989	26,450	6,734	24,981	340	74		51,505	7,074
1990	21,823	5,161	25,076	344	82		46,981	5,505
1991	20,168	5,400	28,419	50,000	91		48,678	55,400
1992	18,588	4,644	39,057		99		57,744	4,644
1993	15,635	4,685	125,479				141,114	4,685
1994	13,413	4,857	125,721				139,134	4,857
1995	11,118	5,044	70,588				81,706	5,044
1996	7,625	5,254	15,939	125,000			23,564	130,254
1997	5,105	5,205	16,049	55,000			21,154	60,205
1998	4,340	2,420	33,576				37,916	2,420
1999	2,941	2,656	22,675		66		25,682	2,656
2000	1,961						1,961	
2001	204						204	
2002	52						52	
2003	58						58	
2004	63						63	
2005	70						70	
2006	76						76	
2007	84						84	
	$251,426	$72,024	$695,848	$337,709	$636		$947,910	$409,733

Total U.S. debt of Metropolitan Corporation and the Area Municipalities translated in equivalent Canadian dollars.

At exchange rates prevailing at the time debt was incurred	$433,012
At exchange rate on December 31, 1985	$572,930

DEBENTURES ISSUED IN 1985

CANADIAN ISSUE

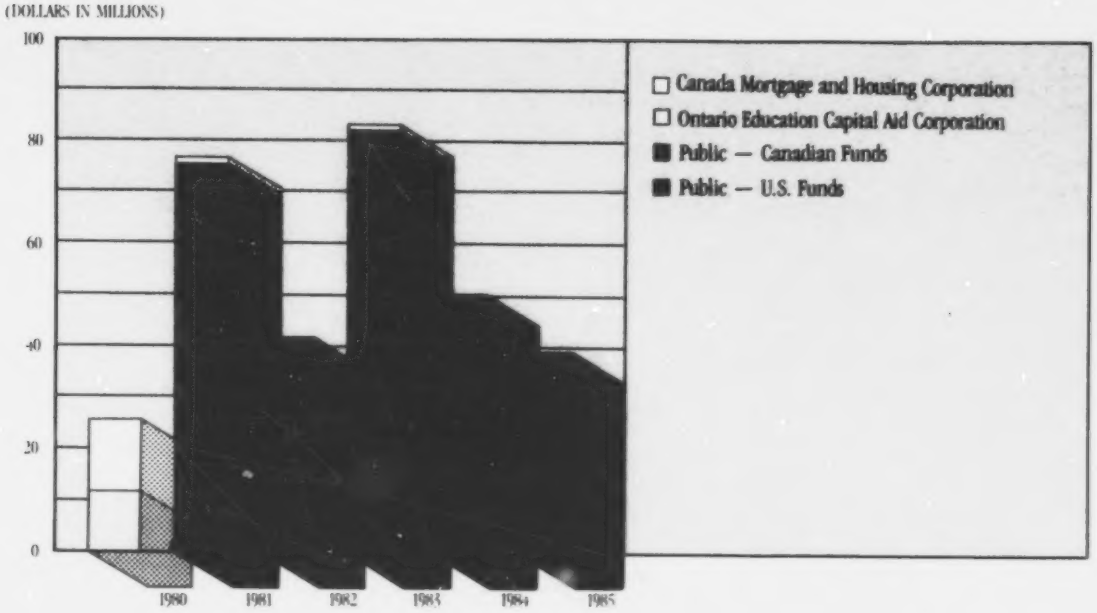
10 YEAR SINKING FUND, 11½%

5, 10 & 15 YEAR INSTALMENT, 10¼, 10¾, 11¼, 11½, & 11¾%

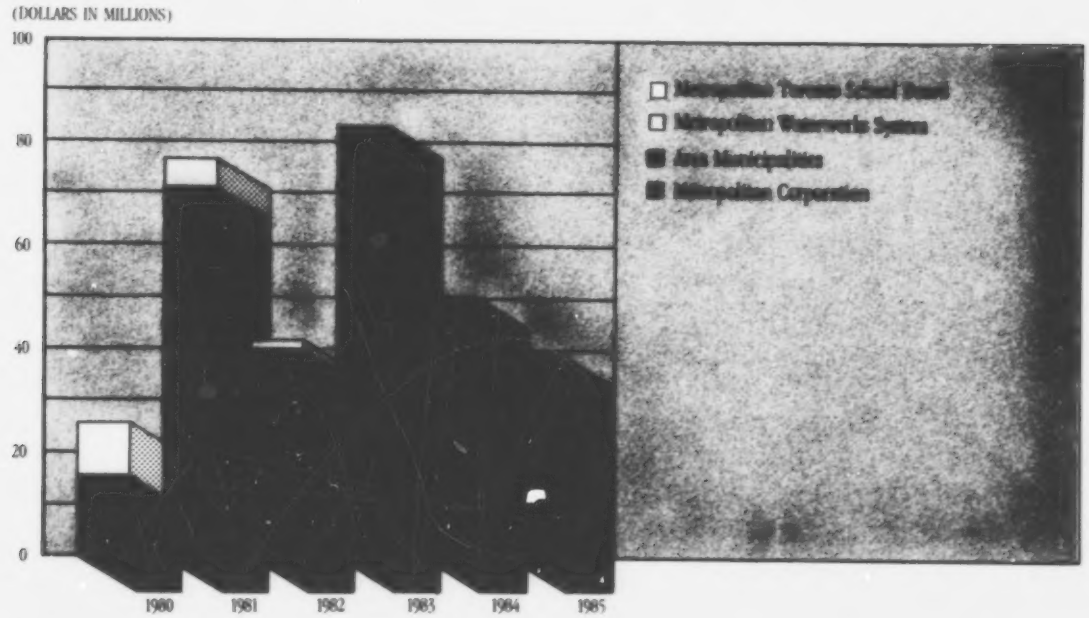
DOLLARS IN THOUSANDS

	Instalment	Sinking Fund	**Total**
Metropolitan Corporation			
Parks		$ 693	**$ 693**
Rapid Transit		4,075	**4,075**
Refuse Disposal		4,839	**4,839**
Water Pollution Control		2,038	**2,038**
		11,645	**11,645**
Area Municipalities			
City of Toronto	$2,205	16,300	**18,505**
City of North York	1,870	1,309	**3,179**
City of Scarborough	438	2,552	**2,990**
City of Etobicoke		1,844	**1,844**
City of York	278	739	**1,017**
Borough of East York		611	**611**
	4,791	23,355	**28,146**
	$4,791	$35,000	**$39,791**

DEBENTURES ISSUED BY LENDER 1980-1985



DEBENTURES ISSUED BY PURPOSE 1980-1985



Debt issued in U.S. Funds has been translated at rates of exchange prevailing at the time the debt was incurred.

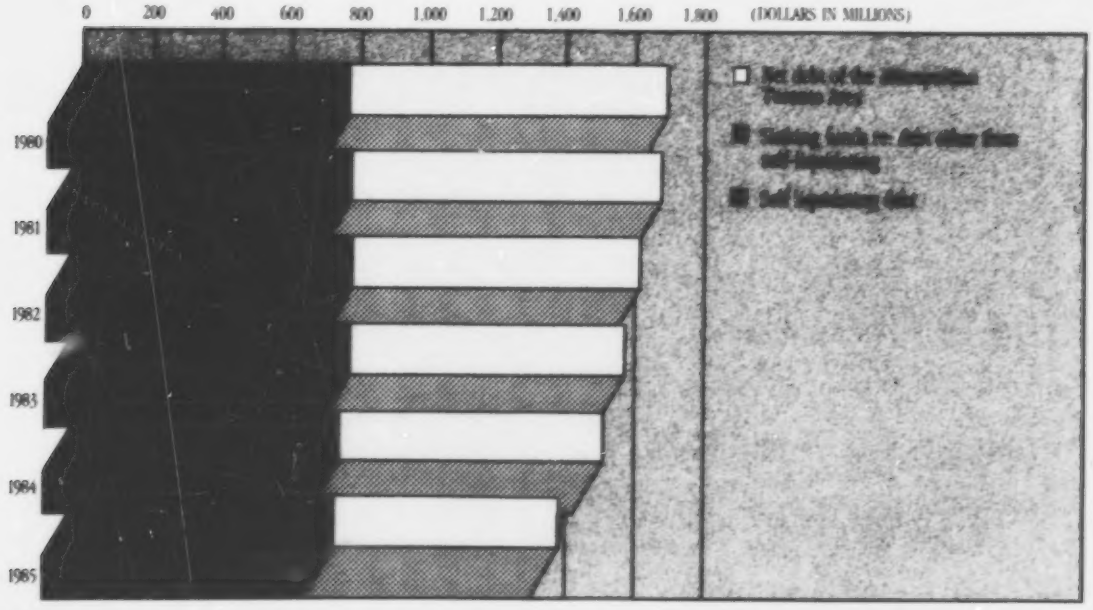
TOTAL DEBENTURE DEBT OF THE METROPOLITAN TORONTO AREA

DOLLARS IN THOUSANDS

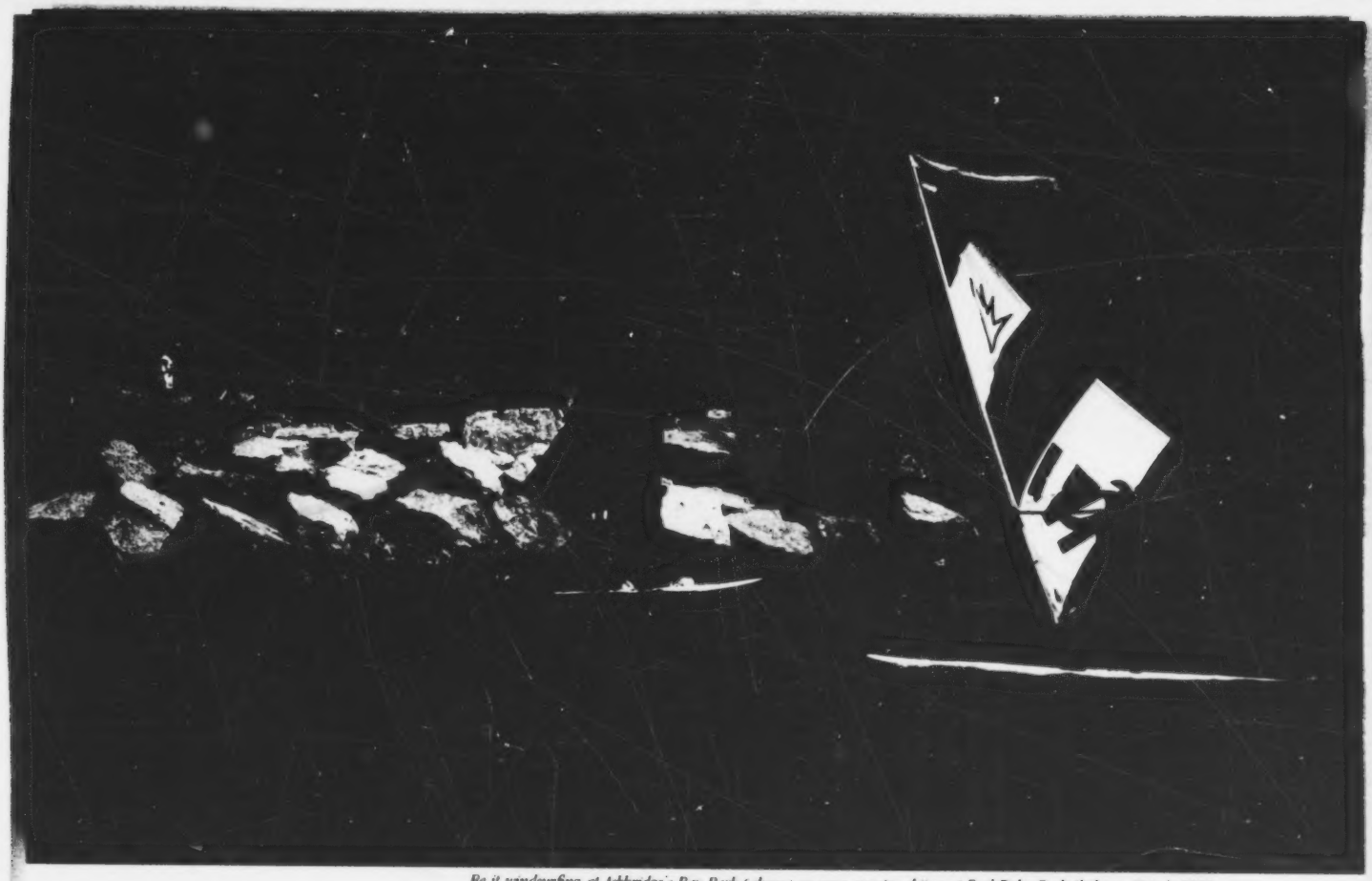
	Outstanding as at December 31, 1985
Area Municipalities' debentures assumed by Metropolitan Corporation	$ 616
Metropolitan Corporation Debentures	1,380,286
Total debenture debt of the Metropolitan Toronto Area	**$1,380,902**

Made up as follows:		
Debenture debt assumed by Province of Ontario (in respect of Administration of Justice)		$ 13,444
Debenture debt recoverable from municipal enterprises		
Toronto Transit Commission	$ 36,267	
Waterworks	159,817	
Hydro-Electric Systems	14,919	211,003
Total — self-liquidating debt		224,447
Sinking funds re. debt other than self-liquidating		522,020
Net debt of the Metropolitan Toronto Area		634,435
Total debenture debt of the Metropolitan Toronto Area		**$1,380,902**

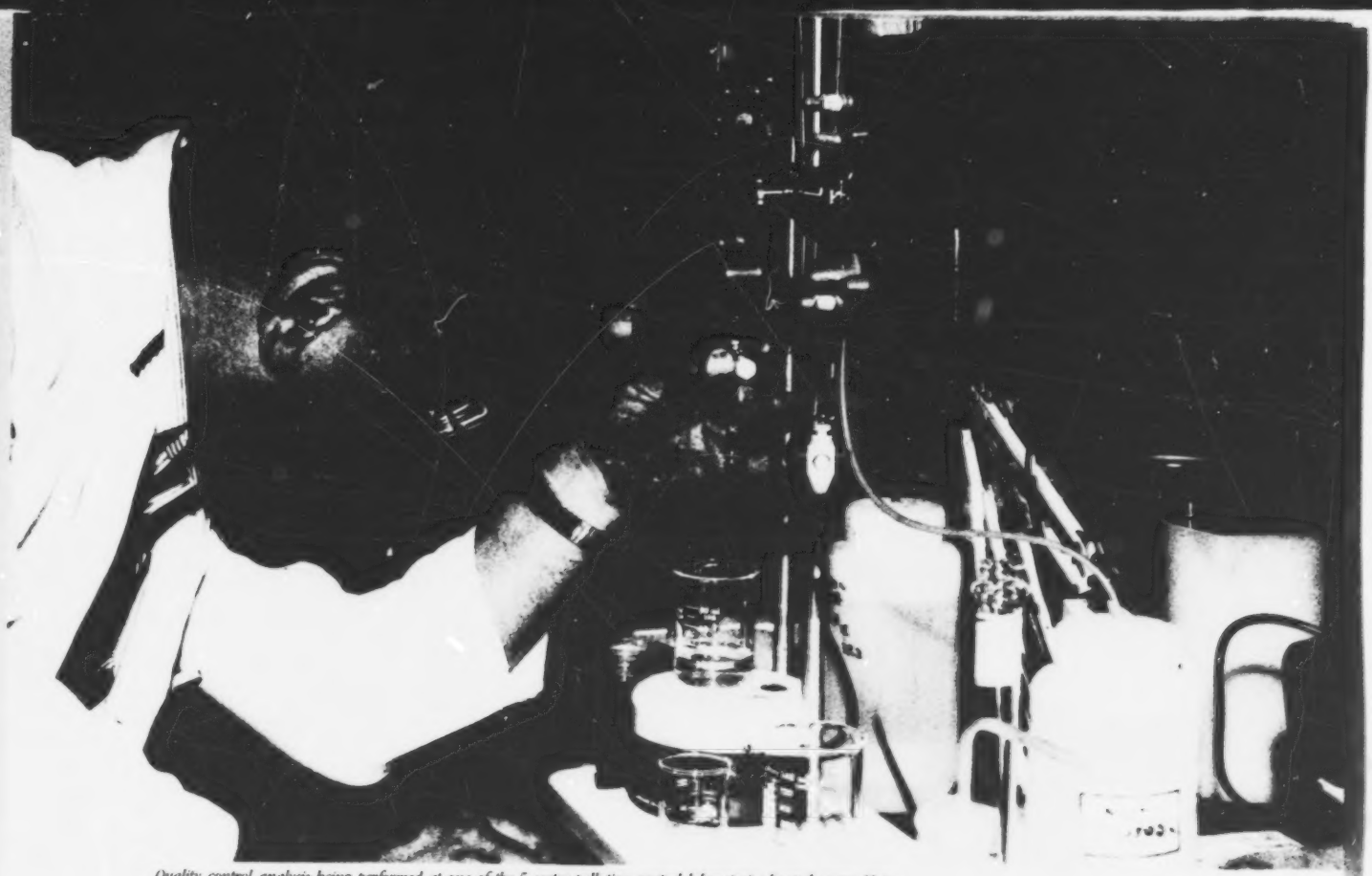
Payable in:	Metropolitan Corporation	Area Municipality	Total
Canada	$ 947,274	$ 616	$ 947,890
United States	433,012		433,012
Total debenture debt of the Metropolitan Toronto Area	**$1,380,286**	**$616**	**$1,380,902**



Debenture debt issued in U.S. Funds has been translated at rates of exchange prevailing at the time the debt was incurred.

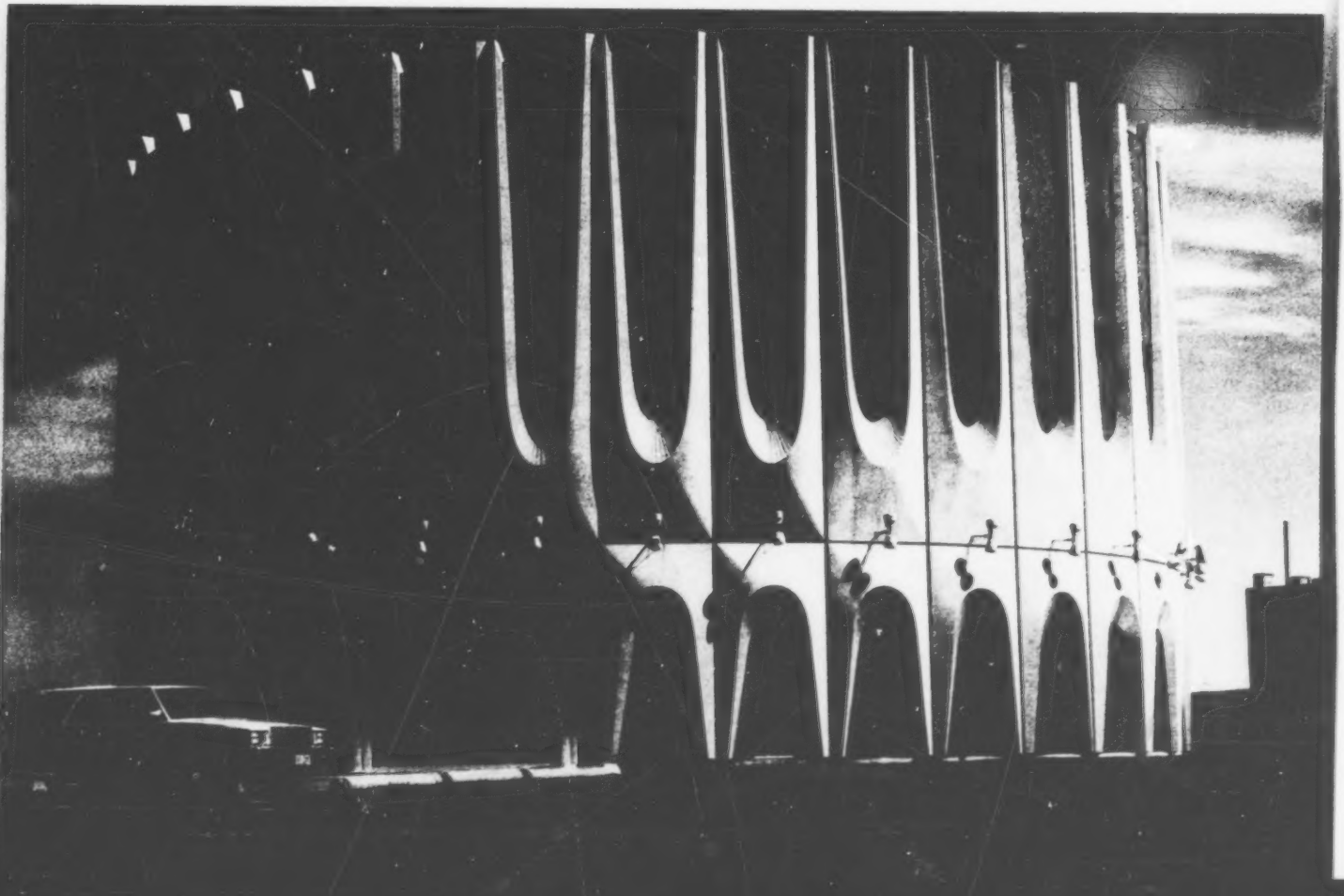


Be it windsurfing at Ashbridge's Bay Park (above) or cross country skiing at Earl Bales Park (below), Metro's 9000 acres of parkland provide a diverse range of opportunities for an outdoor experience — and an escape from the tempo of modern living.



Quality control analysis being performed at one of the 5 water pollution control laboratories located across Metro Toronto. More than 123,000 analyses were conducted in 1985 to determine the nature and strength of flow entering the plants and to ensure the quality of effluent to Lake Ontario.

Main Pumping Station near Lake Ontario — one of the principal components of the Metropolitan Trunk Sewer system striving to provide a water pollution free environment servicing existing development and planned future expansion within Metropolitan boundaries.



Supplementary Financial Statements

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The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

12th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1

Allan G. Andrews, C.A., *Metropolitan Auditor*

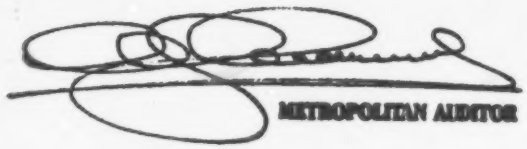
April 18, 1986

AUDITOR'S REPORT

The Chairman and Members of the Metropolitan Council of the Municipality of Metropolitan Toronto

I have examined the balance sheet of the trust funds of the Municipality of Metropolitan Toronto as at December 31, 1985 and the trust funds statement of continuity for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the trust funds of the Municipality as at December 31, 1985 and the continuity of trust funds for the year then ended in accordance with generally accepted accounting principles for Ontario municipalities applied on a basis consistent with that of the preceding year.



METROPOLITAN AUDITOR

METROPOLITAN TORONTO TRUST FUNDS

STATEMENT OF CONTINUITY

YEAR ENDED DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	1985	1984
Balance, beginning of year	**$18,323**	$16,604
Capital receipts		
Cash or collateral received	**11,853**	9,393
Increase/(Decrease) in value of investments	**(306)**	(562)
Interest earned	**1,721**	1,850
	13,268	10,681
Expenditures		
Payments — to or on behalf of Metropolitan Treasurer	**3,402**	2,124
— to Provincial Courts	**4,048**	2,519
— to or on behalf of area municipalities	**562**	296
— to or on behalf of residents	**3,096**	3,135
— to sundry persons	**851**	888
	11,959	8,962
Balance, end of year	**$19,632**	$18,323

BALANCE SHEET

DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	1985	1984
Assets		
Cash	**$ 510**	$ 794
Investments (note 1) — Federal	**990**	
— Provincial	**2,358**	2,226
— Other	**12,631**	14,544
	15,979	16,770
Accounts receivable	**2,491**	131
Interest receivable on investments	**271**	186
Due from Metropolitan Toronto	**579**	635
	3,341	952
	$19,830	$18,516
Liabilities		
Accounts payable (note 2)	**$ 91**	$ 73
Due to Metropolitan Toronto	**107**	120
Balance — Capital	**19,632**	18,323
	$19,830	$18,516

METROPOLITAN TORONTO TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1985

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Expenditures

Expenditures from trust funds are recorded on an accrual basis except for claims against the Metropolitan Municipalities' Liability trust funds.

The Metropolitan Municipalities' Liability trust funds were established to self insure losses, up to a maximum of $50,000 per claim, incurred by the Corporation, its boards, agencies and commissions (except the Toronto Transit Commission) and the municipalities of Toronto, Etobicoke, York and East York.

Expenditures made by the Metropolitan Municipalities' Liability trust in settling claims are recorded as paid, with claims settled in January recorded as liabilities. Estimated unsettled claims are not accrued.

(b) Investments

Investments (other than Homes for the Aged Residents' Trust Fund investments) have been recorded at cost adjusted annually for amortization of discount on the basis of the effective annual yield as determined at the date of purchase.

The Homes for the Aged Residents' Trust Fund investments are recorded at market value; a total nominal value of $1 has been placed on unlisted stocks.

2. CONTINGENT LIABILITIES

The estimated unsettled claims of the Metropolitan Municipalities' Liability trust funds at December 31, 1985 amount to $5,156,000 (1984 — $2,696,000). These claims exceeded fund balances by $3,379,000 and $1,413,000 respectively. This unfunded estimated liability will be funded by equal annual instalments over the period 1986 to 1989.

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

12th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1

Allan G. Andrews, C.A., *Metropolitan Auditor*

February 13, 1986

AUDITOR'S REPORT

To the Chairman and Members of
The Metropolitan Toronto Sinking Fund Committee

I have examined the balance sheet of The Metropolitan Toronto Sinking Funds as at December 31, 1985, and the statements of funds available and required for debenture debt redemption and statements of surplus for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Sinking Funds as at December 31, 1985 and the results of their operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

METROPOLITAN TORONTO SINKING FUNDS

BALANCE SHEET

DECEMBER 31, 1985

DOLLARS IN THOUSANDS

ASSETS	Canadian Fund 1985	Canadian Fund 1984	U.S. Fund 1985	U.S. Fund 1984
Current assets				
Cash	$ 92	$ 172	$ 69	$ 69
Temporary investments	48,045	47,446	54,000	11,400
Accrued interest	10,050	10,941	5,350	3,948
	58,187	58,559	59,419	15,417
Long term investments (note 2)	414,570	450,124	150,068	160,079
	$472,757	$508,683	$209,487	$175,496
LIABILITIES				
Current liabilities				
Accounts payable				
Contributors	$ 25,756	$ 30,368	$ 5,566	$ 865
Others		5		
	25,756	30,373	5,566	865
Actuarial requirements and surplus				
Actuarial requirements	345,183	375,649	169,908	143,322
Surplus:				
Reserve for abatement of future levies	63,118	63,483	22,643	16,735
Unappropriated surplus	38,700	39,178	11,370	14,574
	101,818	102,661	34,013	31,309
Total actuarial requirements and surplus (note 3)	447,001	478,310	203,921	174,631
	$472,757	$508,683	$209,487	$175,496

STATEMENTS OF SURPLUS
YEAR ENDED DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	1985			1984
Canadian Fund	Unappropriated	Reserve for Abatement of Future Levies	**Total**	Total
Balance, beginning of year	$ 39,178	$ 63,483	**$102,661**	$107,347
Funds used to reduce contributions for current year (note 1(e))		(13,948)	**(13,948)**	(15,369)
Excess of funds available over funds required for current year	38,861		**38,861**	41,051
	38,861	(13,948)	**24,913**	25,682
Refunds to contributors	(25,756)		**(25,756)**	(30,368)
Appropriation to reserve for abatement of future levies (note 1(e))	(13,583)	13,583		
Balance, end of year	$ 38,700	$ 63,118	**$101,818**	$102,661
U.S. Fund				
Balance, beginning of year	$ 14,574	$16,735	**$31,309**	$23,105
Funds used to reduce contributions for current year (note 1(e))		(4,707)	**(4,707)**	(2,167)
Excess of funds available over funds required for current year	12,977		**12,977**	11,236
	12,977	(4,707)	**8,270**	9,069
Refunds to contributors	(5,566)		**(5,566)**	(865)
Appropriation to reserve for abatement of future levies (note 1(e))	(10,615)	10,615		
Balance, end of year	$11,370	$22,643	**$34,013**	$31,309

METROPOLITAN TORONTO SINKING FUNDS

STATEMENTS OF FUNDS AVAILABLE AND REQUIRED FOR DEBENTURE DEBT REDEMPTION
YEAR ENDED DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	Canadian Fund		U.S. Fund	
	1985	1984	**1985**	1984
Funds available				
From reserve for abatement of future levies	**$13,948**	$ 15,369	**$ 4,707**	$ 2,167
From current year's receipts:				
Contributions	**21,457**	19,601	**14,320**	16,865
Investment income	**50,511**	52,979	**20,536**	17,539
	85,916	87,949	**39,563**	36,571
Funds required				
Provision for actuarial requirement for current year	**47,055**	46,898	**26,586**	25,335
Excess of funds available over funds required	**$38,861**	$41,051	**$12,977**	$11,236

METROPOLITAN TORONTO SINKING FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1985

1. ACCOUNTING POLICIES

(a) General

The Sinking Fund Committee maintains separate financial records for the Canadian dollar and U.S. dollar Funds. Separate records are also maintained for the portions of these Funds subject to differing actuarial rates in the computation of earnings in order to ensure an equitable distribution of total earnings amongst the various contributors to the Funds. Transfers of investments or cash between these individual portions of the Funds, which are authorized from time to time by the Committee to provide for cash flow obligations, are treated as sales and purchases or loans respectively. Accordingly, the financial statements of each Fund reflect the combined financial operations of each of its portions.

(b) Foreign currencies

The Sinking Fund Committee receives annual levies for the U.S. Fund in U.S. dollars and it is the policy of the Committee to invest such amounts in securities payable in U.S. dollars to meet the par value of sinking fund debentures payable in U.S. dollars. The figures on the financial statements shown for the Canadian Fund and the U.S. Fund are expressed in Canadian and U.S. dollars respectively.

(c) Investments

All investments, other than temporary investments, are purchased with the intention of holding them until maturity and are recorded at cost adjusted annually for amortization of discount or premium on the basis of the effective annual yield as determined at the date of purchase.

(d) Actuarial requirements

Actuarial requirements of the sinking fund provisions for debentures of the Metropolitan Corporation represent the amounts required which, together with interest compounded annually, will be sufficient to retire the related debentures at maturity. Such amounts were based on a rate of 3% per annum on debt issued prior to January 1, 1976 and 5% per annum on debt issued after that date, with a rate not exceeding 8% to be effective on debt issued subsequent to February 23, 1983.

(e) Earnings, surplus and reserve for abatement of future levies

To the extent that earnings of the Funds are in excess of the amounts required to meet actuarial requirements for retirements in any year, they are transferred to surplus. When funds accumulated in surplus in this manner for debentures issued under any specific by-law exceed the actuarial requirements at that date for that by-law, such excess funds may be appropriated to the reserve for abatement of future levies and used to reduce the required contributions in current and future years, subject to prior approval by the Ontario Municipal Board.

(f) Accounts payable — refunds to contributors

Where amounts have accumulated in sinking fund accounts, relating to specific debenture by-laws, which are more than sufficient to redeem the principal amounts of the related debentures, then any excess funds may be either refunded to contributors or used to increase the amounts at the credit of other sinking fund accounts of the same contributors.

It has been the practice of the Sinking Fund Committee to refund such excess amounts to the contributors with the recommendation that the excess amounts be used to defray the cost of other capital expenditures in lieu of the issue of debentures therefor.

2. LONG TERM INVESTMENTS — At amortized cost

These consist of the following:

DOLLARS IN THOUSANDS

	Canadian Fund		U.S. Fund	
	1985	1984	1985	1984
Debentures issued or guaranteed by:				
Government of Canada	$ 57,976	$ 49,040	$ 9,365	$ 18,604
Province of Ontario	18,579	23,581	9,143	21,185
Other provinces	29,169	28,439	9,527	24,101
Municipality of Metropolitan Toronto	234,447	276,946	112,900	90,018
Other municipalities	73,085	71,267	9,133	6,171
School boards	1,314	851		
	$414,570	$450,124	$150,068	$160,079
Par value	$441,397	$480,250	$162,776	$171,553
Market value	$437,353	$448,203	$161,326	$159,961

3. TOTAL ACTUARIAL REQUIREMENTS AND SURPLUS

Component parts of the total actuarial requirements and surplus are detailed below:

DOLLARS IN THOUSANDS

	Canadian Fund		U.S. Fund	
3% Portion	1985	1984	1985	1984
Metropolitan purposes:				
General	$197,795	$218,515		
Schools:				
Public	3,123	7,873		
Secondary	8,757	16,783		
	11,880	24,656		
Public utilities:				
Waterworks	62,478	73,929	$ 5,403	$ 5,403
Toronto Transit Commission	15,644	14,367	2,599	2,599
	78,122	88,296	8,002	8,002
Total Metropolitan purposes	287,797	331,467	8,002	8,002
Area municipality purposes	78,330	90,772	1,832	1,832
Province of Ontario purposes	13,119	12,151		
	$379,246	$434,390	$ 9,834	$ 9,834

5% Portion				
Metropolitan purposes:				
General	**$20,578**	$15,375	**$ 64,699**	$ 54,640
Public utilities:				
Waterworks	**3,610**	2,725	**21,838**	18,353
Total Metropolitan purposes	**24,188**	18,100	**86,537**	72,993
Area municipality purposes	**28,507**	20,378	**107,550**	91,804
	$52,695	$38,478	**$194,087**	$164,797
8% Portion				
Metropolitan purposes:				
General	**$ 7,122**	$2,685		
Area municipality purposes	**7,938**	2,757		
	$15,060	$5,442		

METROPOLITAN TORONTO SINKING FUNDS

FIVE YEAR PROJECTION OF DEBENTURE MATURITIES
DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	Canadian Fund	U.S. Fund
1985	$77,521*	
1986	61,598	$ 73,513
1987	76,207	33,405
1988	30,483	107
1989	24,981	340
1990	25,076	344

*The actual maturities are shown for 1985.

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

12th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1

Allan G. Andrews, C.A., *Metropolitan Auditor*

June 16, 1986

AUDITOR'S REPORT

To the Members of the Board of Trustees
The Municipality of Metropolitan Toronto Pension Fund

I have examined the balance sheet of The Municipality of Metropolitan Toronto Pension Fund as at December 31, 1985 and the statements of revenue, expenditure and accumulated pension fund and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

MUNICIPALITY OF METROPOLITAN TORONTO PENSION FUND

BALANCE SHEET
DECEMBER 31, 1985

DOLLARS IN THOUSANDS

ASSETS	1985	1984
Investments (note 2)	$368,616	$327,763
Interest receivable	3,177	2,992
Accounts receivable	647	374
Contributions receivable	725	884
Short term investments	4,100	2,449
Cash	193	246
	$377,458	$334,708
LIABILITIES		
Accounts and benefits payable	$ 235	$ 1,206
Accumulated pension fund	377,223	333,502
	$377,458	$334,708

STATEMENT OF REVENUE, EXPENDITURE AND ACCUMULATED PENSION FUND
YEAR ENDED DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	1985	1984
Revenue		
Contributions		
Members	$ 4,755	$ 4,853
Employers, current service	4,640	4,832
Employers, past service (note 4)	8,414	8,020
	17,809	17,705
Investment income (note 2)	40,601	27,774
	58,410	45,479
Expenditure		
Pensions and other benefits	13,588	10,418
Accumulated contributions refunded or transferred to other pension plans	119	206
Actuarial fees	71	69
Investment management fees	850	592
Investment consulting fees	32	12
Other expenses	29	22
	14,689	11,319
Excess of revenue over expenditure	43,721	34,160
Accumulated pension fund, beginning of year	333,502	299,342
Accumulated pension fund, end of year	$377,223	$333,502

MUNICIPALITY OF METROPOLITAN TORONTO PENSION FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	1985	1984
Cash used in operations		
Excess of revenue over expenditure for the year	**$ 43,721**	$ 34,160
Amortization of bond discounts and premiums	**(142)**	(128)
	43,579	34,032
Increase (decrease) resulting from changes in:		
Interest receivable	**(185)**	(47)
Accounts and contribution receivable	**(114)**	485
Accounts and benefits payable	**(971)**	765
Cash available from operations	**42,309**	35,235
Financing		
Sale and maturity of investments	**7,263**	5,874
Investments		
Purchase of new investments	**(47,974)**	(43,980)
Increase (decrease) in cash	**1,598**	(2,871)
Cash, beginning of year	**2,695**	5,566
Cash, end of year	**$ 4,293**	$ 2,695
Consists of:		
Cash	**$ 193**	$ 246
Short term investments	**4,100**	2,449
	$ 4,293	$ 2,695

MUNICIPALITY OF METROPOLITAN TORONTO PENSION FUND

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1985

1. ACCOUNTING POLICIES

(a) Investments

Investments in internally managed bonds and debentures are carried at cost adjusted by amortization of the premium or discount on purchase over the term of the issue.

Investments in externally managed bond and equity funds are carried at cost plus accumulated earnings. Premiums and discounts are not amortized. On redemption or sale, any premium or discount is included in the gain or loss on sale of investments.

Investments in mortgage funds are carried at cost.

The investments in the real estate fund are carried on the equity basis.

The investment in the venture capital fund is carried on the equity basis.

(b) Gains and losses on investments

Gains and losses on investments are recorded only upon sale of such investments and are determined on an average cost basis.

(c) Income recognition

Income on investments is recorded on the accrual basis with dividends being recorded on the dividend record date.

(d) Foreign currencies

Investments purchased or sold in foreign currencies are translated into Canadian dollars using exchange rates prevailing at the date of acquisition or sale. Dividends and interest received on foreign currency securities are translated using the exchange rate prevailing at the date of receipt. Accrued investment income and market values of investments are translated using year-end exchange rates.

2. INVESTMENTS AND INVESTMENT INCOME

(a) Investments consist of the following:

	DOLLARS IN THOUSANDS	
	1985	1984
Internally managed bonds and debentures	**$ 89,342**	$ 96,463
Market value — $86,917,000 (1984 — $85,604,000)		
Net assets of externally managed investment funds		
Bond funds Market value — $99,703,000 (1984 — $83,627,000)	**96,424**	82,470
Equity funds Market value — $188,392,000 (1984 — $137,633,000)	**141,053**	118,015
Mortgage funds	**32,896**	28,827
Real estate fund	**8,427**	1,988
Venture capital fund	**474**	
	$368,616	$327,763

(b) Investment income for the year:

	DOLLARS IN THOUSANDS	
	1985	1984
Internally managed bond and debenture income	**$ 8,732**	$ 9,200
Externally managed fund income		
Bonds	**13,719**	7,267
Equities	**13,475**	7,485
Mortgages	**3,893**	3,099
Real estate	**446**	117
Venture capital	**10**	
Interest on short term deposits	**326**	606
	$ 40,601	$ 27,774

The assets of the externally managed bond and equity funds are held by a trust company under the terms of a custodial agreement. The funds are managed by certain investment managers under separate management agreements. Net income is retained by each of the managed bond and equity funds for reinvestment by the respective fund managers.

The assets of the externally managed mortgage and real estate funds are held and managed by investment managers under separate management agreements.

3. OUTSTANDING COMMITMENTS

As at December 31, 1985 the Fund had an outstanding commitment for two further subscriptions, of $500,000 each, in the venture capital fund.

4. ACTUARIAL VALUATION

The financial statements show only the financial position of the Fund and do not purport to show the adequacy of the Fund to meet obligations for payment of pensions and death benefits to members.

The most recent actuarial valuation of the fund as at December 31, 1984 indicated that the present value of the unfunded liability of the Pension Fund was $43,528,000 (1983 — $60,965,000). The unfunded liability will be paid to the fund by the Municipality of Metropolitan Toronto and the other participating employers as follows:

1986 to 1988	$7,397,000 per year
1989	7,362,000
1990 to 1992	7,334,000 per year
1993	1,048,000
1994	1,039,000
1995	1,032,000
1996 to 1999	458,000 per year

5. COMPARATIVE FIGURES

Certain of the 1984 figures presented here for comparative purposes have been reclassified to conform with the current year's presentation.

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

12th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1

Allan G. Andrews, C.A., *Metropolitan Auditor*

June 16, 1986

AUDITOR'S REPORT

To the Members of the Board of Trustees
The Metropolitan Toronto Police Benefit Fund

I have examined the balance sheet of The Metropolitan Toronto Police Benefit Fund as at December 31, 1985 and the statements of revenue, expenditure and accumulated benefit fund and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Benefit Fund as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

METROPOLITAN TORONTO POLICE BENEFIT FUND

BALANCE SHEET
DECEMBER 31, 1985

DOLLARS IN THOUSANDS

ASSETS	1985	1984
Investments (note 2)	$338,666	$293,043
Interest receivable	2,590	2,337
Accounts receivable	542	299
Short term investments	6,600	7,448
Cash	258	489
	$348,656	$303,616
LIABILITIES		
Accounts and benefits payable	$ 543	$ 161
Accumulated benefit fund	348,113	303,455
	$348,656	$303,616

STATEMENT OF REVENUE, EXPENDITURE AND ACCUMULATED BENEFIT FUND
YEAR ENDED DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	1985	1984
Revenue		
Contributions		
Members	$ 5,515	$ 5,521
Employer, current service	4,999	5,123
Employer, past service (note 4)	7,865	7,912
	18,379	18,556
Investment income (note 2)	41,374	29,619
	59,753	48,175
Expenditure		
Pensions and other benefits	14,007	11,611
Accumulated contributions refunded or transferred to other pension plans	185	152
Actuarial fees	44	55
Investment management fees	802	599
Investment consulting fees	29	11
Other expenses	28	13
	15,095	12,441
Excess of revenue over expenditure	44,658	35,734
Accumulated benefit fund, beginning of year	303,455	267,721
Accumulated benefit fund, end of year	$348,113	$303,455

METROPOLITAN TORONTO POLICE BENEFIT FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1985

	DOLLARS IN THOUSANDS	
	1985	1984
Cash used in operations		
Excess of revenue over expenditures for the year	**$ 44,658**	$ 35,734
Amortization of bond discounts and premiums	**(70)**	(72)
	44,588	35,662
Increase (decrease) resulting from changes in:		
Interest receivable	**(253)**	149
Accounts receivable	(243)	148
Accounts and benefits payable	**382**	116
Cash available from operations	**44,474**	36,075
Financing		
Sale and maturity of investments	**3,467**	4,627
Investment		
Purchase of new investments	**(49,020)**	(52,671)
Decrease in cash	**1,079**	11,969
Cash, beginning of year	**7,937**	19,906
Cash, end of year	**$ 6,858**	$ 7,937
Consists of:		
Cash	**$ 258**	$ 489
Short term investments	**6,600**	7,448
	$ 6,858	$ 7,937

METROPOLITAN TORONTO POLICE BENEFIT FUND

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1985

1. ACCOUNTING POLICIES

(a) Investments

Investments in internally managed bonds and debentures are carried at cost adjusted by amortization of the premium or discount on purchase over the term of the issue.

Investments in externally managed bond and balanced funds are carried at cost plus accumulated earnings. Premiums and discounts are not amortized. On redemption or sale, any premium or discount is included in the gain or loss on sale of investments.

Investments in mortgage funds are carried at cost.

The investments in the real estate fund are carried on the equity basis.

The investment in the venture capital fund is carried on the equity basis.

(b) Gains and losses on investments

Gains and losses on investments are recorded only upon sale of such investments and are determined on an average cost basis.

(c) Income recognition

Income on investments is recorded on the accrual basis with dividends being recorded on the dividend record date.

(d) Foreign currencies

Investments purchased or sold in foreign currencies are translated into Canadian dollars using exchange rates prevailing at the date of acquisition or sale. Dividends and interest received on foreign currency securities are translated using the exchange rate prevailing on the date of receipt. Accrued investment income and market values of investments are translated using year-end exchange rates.

2. INVESTMENTS AND INVESTMENT INCOME

(a) Investments consist of the following:

	DOLLARS IN THOUSANDS	
	1985	1984
Internally managed bonds and debentures	**$ 64,167**	$ 67,564
Market value — $61,918,000 (1984 — $59,393,000)		
Net assets of externally managed investment funds		
Bond funds	**56,911**	49,000
Market value — $58,479,000 (1984 — $49,245,000)		
Balanced funds	**175,467**	145,152
Market value — $210,671,000 (1984 — $160,901,000)		
Mortgage funds	**33,220**	29,339
Real estate funds	**8,427**	1,988
Venture capital fund	**474**	
	$338,666	$293,043

(b) Investment income for the year:

	DOLLARS IN THOUSANDS	
	1985	1984
Internally managed bond and debenture income	**$ 5,965**	$ 6,238
Externally managed fund income		
Bonds	**8,052**	4,125
Balanced	**22,109**	14,334
Mortgages	**4,134**	3,280
Real estate	**446**	117
Venture capital	**10**	
Interest on short term deposits	**658**	1,525
	$41,374	$29,619

The assets of the externally managed bond and balanced funds are held by a trust company under the terms of a custodial agreement. The funds are managed by certain investment managers under separate management agreements. Net income is retained by each of the managed bond and balanced funds for reinvestment by the respective fund managers.

The assets of the externally managed mortgage and real estate funds are held and managed by investment managers under separate management agreements.

3. OUTSTANDING COMMITMENTS

As at December 31, 1985, the fund had an outstanding commitment for two further subscriptions, of $500,000 each, in the venture capital fund.

4. ACTUARIAL VALUATION

The financial statements show only the financial position of the Fund and do not purport to show the adequacy of the Fund to meet obligations for payment of pensions and death benefits to members.

The most recent actuarial valuation as at December 31, 1984 indicated that the present value of the unfunded liability of the Benefit Fund was $50,289,000 (1983 — $63,788,000). This unfunded liability will be paid to the Fund by the Municipality of Metropolitan Toronto as follows:

1986 to 1992	$7,094,000 per year
1993 and 1994	5,551,000 per year

5. COMPARATIVE FIGURES

Certain of the 1984 figures presented here for comparative purposes have been reclassified to conform with the current year's presentation.

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

12th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1

Allan G. Andrews, C.A., *Metropolitan Auditor*

April 24, 1986

AUDITOR'S REPORT

To the Members of the Board of Trustees
The Metropolitan Toronto Police Benefit Fund

I have examined the balance sheet of the Supplemental Pension Benefits Trust Fund of the Metropolitan Toronto Board of Commissioners of Police as at December 31, 1985 and the statements of revenue, expenditure and accumulated trust fund and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Trust Fund as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

MUNICIPALITY OF METROPOLITAN TORONTO
BOARD OF COMMISSIONERS OF POLICE
SUPPLEMENTAL PENSION BENEFITS TRUST FUND

BALANCE SHEET

DECEMBER 31, 1985

	DOLLARS IN THOUSANDS	
ASSETS	**1985**	1984
Short term investments, at cost, which approximates market	**$148**	$153
Accrued interest	**4**	6
Cash		1
	$152	$160
LIABILITIES		
Benefits payable		$ 2
Accumulated trust fund	**$152**	158
	$152	$160

STATEMENT OF REVENUE, EXPENDITURE AND ACCUMULATED TRUST FUND

YEAR ENDED DECEMBER 31, 1985

	DOLLARS IN THOUSANDS	
	1985	1984
Revenue		
Interest income	**$ 16**	$ 17
Expenditure		
Pensions	**22**	16
Excess of (expenditure over revenue) revenue over expenditure	**(6)**	1
Accumulated trust fund, beginning of year	**158**	157
Accumulated trust fund, end of year	**$152**	$158

MUNICIPALITY OF METROPOLITAN TORONTO
BOARD OF COMMISSIONERS OF POLICE
SUPPLEMENTAL PENSION BENEFITS TRUST FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	1985	1984
Cash used in operations		
Excess of (expenditure over revenue) revenue over expenditure	$ (6)	$ 1
Increase (decrease) resulting from changes in:		
Accrued interest	2	(4)
Benefits payable	(2)	2
Cash used in operations	(6)	(1)
Cash, beginning of year	154	155
Cash, end of year	$148	$154
Consists of:		
Cash		$ 1
Short term investments	$148	153
	$148	$154

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1985

1. The Supplemental Pension Benefits Trust Fund was established in accordance with memoranda of understanding between the Board of Commissioners of Police and the Metropolitan Toronto Police Association to provide a fund for the benefit of spouses or dependent children of members of the police force who die as a result of injuries received in the performance of their duties.

2. The Trust Fund is administered by the Board of Trustees of the Metropolitan Toronto Police Benefit Fund. Payments from the Trust Fund are governed by criteria formulated by the Trustees.

3. These financial statements show only the financial position of the Trust Fund and do not purport to show the adequacy of the Trust Fund to make the payments which may be required from time to time in accordance with the criteria established by the Trustees.

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

12th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1

Allan G. Andrews, C.A., *Metropolitan Auditor*

April 25, 1986

AUDITOR'S REPORT

To the Shareholder
The Metropolitan Toronto Housing Company Limited

I have examined the balance sheet of the Metropolitan Toronto Housing Company Limited as at December 31, 1985 and the statements of revenue, expenditure and surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted for Ontario municipalities applied on a basis consistent with that of the preceding year.

CHARTERED ACCOUNTANT

METROPOLITAN TORONTO HOUSING COMPANY LIMITED

BALANCE SHEET
DECEMBER 31, 1985

	DOLLARS IN THOUSANDS	
ASSETS	**1985**	1984
Current assets		
Cash	**$ 2,591**	$ 2,158
Special funds (note 3)	**887**	628
Accounts receivable	**25,885**	24,738
Inventory	**73**	19
Prepaid expenses	**22**	1
	29,458	27,544
Housing projects (note 4)	**355,872**	337,471
Organizational expenses	**1**	1
	$385,331	$365,016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable	**$27,770**	$27,375
Rents received in advance	**192**	157
Special funds (note 3)	**887**	628
	28,849	28,160
Project financing (note 5)	**355,930**	336,840
Deferred financing (note 6)	**446**	27
Shareholder's equity		
Capital stock Authorized — 10,000 common shares of $1 par value Issued — 701 shares	**1**	1
Surplus (Deficit)	**105**	(12)
	106	(11)
	$385,331	$365,016

METROPOLITAN TORONTO HOUSING COMPANY LIMITED

STATEMENT OF REVENUE, EXPENDITURE AND SURPLUS
YEAR ENDED DECEMBER 31, 1985

	DOLLARS IN THOUSANDS	
	1985	1984
Revenue		
Rents		
Residential	**$ 44,791**	$ 40,005
Commercial	**1,098**	749
Tenants' board	**288**	367
Federal interest reduction grants	**7,654**	5,021
Provincial rental reduction grants	**201**	232
Other	**983**	631
	55,015	47,005
Expenditure		
Mortgage and loan interest	**35,046**	31,289
Operating and maintenance	**29,563**	25,134
Municipal taxes	**12,806**	11,555
Administrative and other	**4,326**	3,832
Depreciation	**982**	861
Insurance	**98**	84
	82,821	72,755
Loss before subsidies	**(27,806)**	(25,750)
Operating subsidies		
Canada Mortgage and Housing Corporation	**13,364**	12,533
Province of Ontario	**14,469**	13,086
Municipality of Metropolitan Toronto	**90**	176
Net profit for year	**117**	45
Deficit beginning of year	**(12)**	(57)
Surplus (Deficit) end of year	**$ 105**	(12)

METROPOLITAN TORONTO HOUSING COMPANY LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	1985	1984
Operations		
Net profit for the year	$ 117	$ 45
Depreciation	982	861
	1,099	906
Increase (decrease) resulting from changes in:		
Accounts receivable	(1,147)	(1,676)
Inventory	(54)	16
Prepaid expenses	(21)	
Accounts payable	395	907
Rents received in advance	35	6
Cash available from operations	307	159
Financing		
Increase in project financing	21,030	33,401
Repayment of projects financing	(1,940)	(15,171)
Increase in deferred financing	419	27
Cash provided by financing	19,509	18,257
Investment		
Additions to housing projects	(19,864)	(19,696)
Proceeds on disposal of housing projects	481	
Cash used for investment	(19,383)	(19,696)
Increase (decrease) in cash	433	(1,280)
Cash, beginning of year	2,158	3,438
Cash, end of year	$ 2,591	$ 2,158

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1985

1. COMPANY'S STATUS

The Company is a non-profit organization incorporated under the laws of Ontario and is wholly-owned by the Municipality of Metropolitan Toronto. The Company is engaged in the construction and operation of subsidized senior citizens and family housing in the Metropolitan Toronto area. The operations of the Company are staffed by employees of the Metropolitan Corporation and the Company pays to the Corporation the employee costs when billed.

2. ACCOUNTING POLICIES

(a) Housing Projects

Housing projects are valued at cost, less capital contributions from government and other sources and accumulated depreciation. Costs include the original cost of acquisition of land and buildings and other related costs, the cost of improvements necessary to renovate and rehabilitate buildings, where applicable, and net operating expenses of each project up to the completion date for mortgage adjustment purposes.

Government sources provide financing or guarantee financing from private lenders. In order to comply with municipal accounting policy, the charge for depreciation is equal to the annual principal repayment on the outstanding mortgages. The depreciation charge for the year is reduced by the amortization of deferred financing as explained in note 6.

With minor exceptions, the financing agreements between the Company and the Municipality of Metropolitan Toronto provide that the title to the land, buildings and equipment of each project will be transferred to the Metropolitan Corporation for the sum of $1.00 at the time the Canada Mortgage and Housing or other mortgage financing for the project is repaid.

(b) Inventory

Inventory is valued at average cost.

3. SPECIAL FUNDS

Special funds consist of the following:

	DOLLARS IN THOUSANDS	
	1985	1984
Equipment replacement reserve fund	**$847**	$596
Consolidated tenants' benefit fund	**40**	32
	$887	$628

These special funds consist of cash and short term deposits of $417,000 and temporary investments with the Northland Bank of $470,000 (subsequently received from the Government of Canada). These funds are held for specific purposes and are not available for operating expenditures of the Company. Expenditures of such funds are charged against the applicable fund balance.

Equipment replacement is provided for by periodic charges against operations in accordance with the terms of the operating agreements with Canada Mortgage and Housing Corporation and the Province of Ontario's Ministry of Housing for those projects operated under Sections 15.1 and 44 (1) of the National Housing Act.

The consolidated tenants' benefit fund is used to segregate certain receipts of the Company which are retained for use for the benefit of tenants.

4. HOUSING PROJECTS

This consists of:

	DOLLARS IN THOUSANDS		
	January 1	Additions during the year	December 31
Land	$ 44,066	$ 2,152	$ 46,218
Buildings	297,879	17,593	315,472
Equipment	6,707	83	6,790
	348,652	19,828	368,480
Net operating expense prior to completion date	4,682	36	4,718
	353,334	19,864	373,198
Less:			
Grants from Federal Government	3,663		3,663
Grants from Province of Ontario	5,370		5,370
Grants from Atkinson Charitable Foundation	74		74
Sale of land		481	481
	9,107	481	9,588
	344,227	19,383	363,610
Less:			
Accumulated depreciation	6,756	982	7,738
	$337,471	$18,401	$355,872

5. PROJECT FINANCING

This consists of:

DOLLARS IN THOUSANDS

	January 1	Additions (repayments) during the year	December 31
Loans payable to Municipality of Metropolitan Toronto			
Temporary	$ 5,500	$ (816)	$ 4,684
Long term	25,884	726	26,610
Mortgage loans payable to			
Canada Mortgage and Housing Corporation	198,436	(1,123)	197,313
Others	105,499	18,391	123,890
Payable to contractors and others	1,521	1,912	3,433
	$336,840	$19,090	$355,930

Principal payments are due as follows:

DOLLARS IN THOUSANDS

	Municipality of Metropolitan Toronto	Canada Mortgage & Housing Corporation	Other	Total
1986	$ 69	$ 673	$ 60	$ 802
1987	77	740	243	1,060
1988	84	795	276	1,155
1989	92	854	314	1,260
1990	101	917	357	1,375
1991 to 2033	26,256	194,007	122,700	342,963
	26,679	197,986	123,950	348,615
Less current portion	69	673	60	802
	$26,610	$197,313	$123,890	$347,813
Range of interest rates (%)	3.5-16	3.5-11	10.7-17	
Average interest rates (%)	9	9	14	

Permanent long-term financing is arranged for each housing project at the commencement of construction. Temporary loans and amounts payable to contractors and others are classified as project financing and are excluded from current liabilities since these obligations will be repaid from funds advanced under the agreements for permanent financing.

The portion of long-term loans and mortgages due and payable within one year is included in current liabilities.

Included in principal payments due in 1991 to 2033 are interest bearing loans from the Metropolitan Corporation for Section 15 projects amounting to $2,340,000. These loans will be forgiven upon maturity in the year 2007 to 2016.

6. DEFERRED FINANCING

Deferred financing represents the net difference between the actual cost of projects and the proceeds received under the terms of individual financing arrangements, which allow for variations from actual costs. Such differences are amortized over the terms of the project financing.

7. OPERATING SUBSIDIES

Under the terms of agreements with Canada Mortgage and Housing Corporation and the Province of Ontario, the Company receives subsidies to recover its operating losses on all projects except three operated under the Community Sponsored Non-Profit Program. In determining operating losses eligible for subsidy under these agreements, the costs of services which are not specifically related to the provision of housing are excluded. Losses in 1985 on the provision of food services in two projects are recoverable from the Metropolitan Corporation. The net profit of $117,000 for the year resulted from the operation of a commercial mall at one project and the three projects mentioned above.

8. CONTRACTUAL OBLIGATIONS

The Company is obligated under the terms of operating leases to pay annual rentals of $372,000 in 1986, $161,000 from 1987 to 1989, $68,000 in 1990, and $25,000 from 1991 to 2024.

As at December 31, 1985, the Company was contractually committed to make expenditures of $7,444,000 for capital assets not yet acquired and not included in the financial statements.

9. LIABILITY FOR VESTED SICK LEAVE BENEFITS

Under the sick leave benefit plan of the Municipality of Metropolitan Toronto, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Municipality's employment.

In 1982, the Municipality established a corporate Sick Pay Reserve Fund to cover such sick leave payments to employees of the Municipality and any participating boards, agencies or commissions. The Company is a participant in this Plan. Over a ten-year period, contributions to the Fund will discharge obligations and stabilize the financial impact of benefit payments.

10. RESIDENTIAL TENANCIES ACT

Under the Residential Tenancies Act enacted August 17, 1979, residential premises situated in a residential complex owned, operated or administered by a municipality or any agency thereof, were exempted from residential rent controls.

11. COMPARATIVE FIGURES

Certain of the 1984 figures presented here for comparative purposes have been reclassified to conform with the current year's presentation.

Chartered Accountants
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Price Waterhouse

May 6, 1986.

AUDITOR'S REPORT

To The Metropolitan Toronto School Board:

We have examined the combined balance sheet of The Metropolitan Toronto Area School Boards as at December 31, 1985, the combined revenue fund statements of operations and the combined capital fund statement of operations for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

These financial statements combine, as at December 31, 1985, the financial statements of The Metropolitan Toronto School Board and the Boards of Education for the Cities of Etobicoke, North York, Scarborough, Toronto and York and the Borough of East York to represent one divisional board of education as defined by Ontario Regulation 128/85 under the Education Act 1974.

In our opinion, these financial statements present fairly the financial position of the Metropolitan Toronto Area School Boards as at December 31, 1985 and the results of their operations for the year then ended in accordance with accounting principles described in Note 1 to these financial statements applied on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants

METROPOLITAN TORONTO AREA SCHOOL BOARDS

COMBINED BALANCE SHEET

DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	REVENUE FUND		CAPITAL FUND		RESERVE FUNDS	
ASSETS	**1985**	1984	**1985**	1984	**1985**	1984
Current assets						
Cash			**$ 7,706**	$ 7,813		
Investments at cost	**$10,042**	$16,013	**17**	243	**$10,276**	$14,930
Accounts receivable						
Municipalities (note 1f)						
Under-requisitions secondary		576				
Other	**37,625**	34,804				
Other school boards	**2,191**	2,237				
Government of Ontario	**19,724**	15,725				
Government of Canada	**39**	254		6		
Other	**2,558**	2,203	**12,762**	7,769		
Due from capital fund	**14,380**	9,343				
Due from revenue fund			**17**		**5,894**	4,038
Prepaid expenses	**1,621**	1,127				
Other current assets	**7,883**	6,949				
	96,063	89,231	**20,502**	15,831	**16,170**	18,968
Capital outlay to be recovered in future years (note 1c)			**100,281**	160,145		
	$96,063	$89,231	**$120,783**	$175,976	**$16,170**	$18,968
LIABILITIES						
Current liabilities						
Bank or other short-term borrowing	**$ 5,455**	$ 1,116				
Accounts payable						
Municipalities (note 1f)						
Over-requisitions elementary	**9,138**	8,720				
Over-requisitons secondary	**161**					
Other school boards	**(38)**	26				
Government of Ontario	**495**	449				
Government of Canada	**13,170**	14,331				
Trade and accrued liabilities (note 2)	**56,957**	55,044	**$ 4,241**	$ 1,416		
Due to revenue fund			**14,380**	9,343		
Due to capital fund	**18**					
Due to reserve funds	**5,894**	4,038				
Other current liabilities	**689**	345				
Reserve for 1986 tax reduction	**143**					
	92,082	84,069	**18,621**	10,759		
Deferred income	**3,981**	5,162	**4,099**	4,418		
Long-term liabilities						
Unmatured debenture debt less sinking fund (notes 1d, 3, 4)			**95,937**	156,666		
Equity in reserve funds (note 1e)					**$16,170**	$18,968
Unexpended capital funds			**2,126**	4,133		
	$96,063	$89,231	**$120,783**	$175,976	**$16,170**	$18,968

METROPOLITAN TORONTO AREA SCHOOL BOARDS

COMBINED REVENUE FUND STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 1985

DOLLARS IN THOUSANDS

	ELEMENTARY SCHOOLS		SECONDARY SCHOOLS	
	1985	1984	1985	1984
Expenditure				
Business administration	$ 12,761	$ 11,353	$ 16,668	$ 14,694
General administration	4,649	4,003	6,599	5,796
Computer services	3,511	3,452	7,072	6,721
Instruction	495,166	465,245	500,881	474,013
Plant operation and maintenance	112,951	108,589	92,267	90,385
Transportation	22,497	19,517	4,052	3,907
Tuition fees	224	189	6	15
Capital expenditure (non-allocable)	19,356	20,742	17,560	14,490
Other operating expenditure	1,902	2,373	2,735	1,924
Debt charges and capital loan interest (note 5)	21,186	21,603	12,416	13,183
Non-operating expenditure excluding transfers to reserves	15,439	13,690	12,450	11,072
	709,642	670,756	672,706	636,200
Recovery of expenditure				
Other school boards — tuition fees and miscellaneous	5,451	5,554	2,961	2,175
Government of Ontario, miscellaneous	262	298	337	497
Government of Canada	397	371	243	191
Individuals — tuition fees	275	173	7,516	8,808
Other revenue, excluding transfers from reserves	13,186	17,685	16,077	17,917
	19,571	24,081	27,134	29,588
	$690,071	$646,675	$645,572	$606,612
Financing of net expenditure				
Government of Ontario general legislative grants	$ 45,339	$ 54,079	$ 83,774	$ 91,493
Local taxation				
Previous year's over (under) requisition	8,720	6,914	(576)	7,670
Raised in current year	646,699	592,103	556,225	501,961
Decrease (increase) in reserves	(1,487)	2,299	6,390	4,913
	653,932	601,316	562,039	514,544
To be applied to the following year's taxation				
Reserve for refund of taxes for reason of employees' withdrawal of services	(63)		(80)	
Net under (over) requisition	(9,137)	(8,720)	(161)	575
	$690,071	$646,675	$645,572	$606,612

METROPOLITAN TORONTO AREA SCHOOL BOARDS

COMBINED CAPITAL FUND STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1985

	DOLLARS IN THOUSANDS	
	1985	1984
Capital expenditure		
Fixed assets and work in progress		
Buildings, furniture and equipment	**$53,806**	$46,552
School sites and improvements to sites	**713**	1,426
Pupil transportation vehicles	**646**	753
Other	**(2)**	
	55,163	48,731
Less federal sales tax refund	**(48)**	(119)
	$55,115	$48,612
Capital financing		
Unexpended funds at beginning of year, or (Balance at beginning of year not permanently financed)		
Elementary	**$ (703)**	$ (829)
Secondary	**1,342**	3,412
Capital expenditure from the combined revenue fund	**55,197**	49,993
Transfer to the revenue fund	**(2,530)**	(2,955)
Other	**(408)**	(370)
Balance at end of year not permanently financed or (Unexpended funds at end of year)		
Elementary	**319**	703
Secondary	**1,898**	(1,342)
	$55,115	$48,612

METROPOLITAN TORONTO AREA SCHOOL BOARDS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1985

1. ACCOUNTING PRINCIPLES

The financial statements have been prepared by the Board using accounting principles that are prescribed by the Ministry of Education and are considered appropriate for Ontario School Boards. These principles are in accordance with generally accepted accounting principles except as follows:

(a) Basis of preparation

The financial statements of The Metropolitan Toronto Area School Boards combine the financial statements of the Boards of Education for the Cities of Etobicoke, North York, Scarborough, Toronto, and York and the Borough of East York, and The Metropolitan Toronto School Board as at December 31, 1985 and for the year then ended. Inter-Board transactions and balances have been eliminated.

(b) Accrual accounting

Revenue and expenditure are accounted for on the accrual method except for:

(i) No provision is made for interest on unmatured debenture debt from the date of payment to the end of the fiscal year.

(ii) No provision is made to record the liability for retirement and/or sick leave benefits accruing over the working lives of employees.

(c) Fixed assets

Fixed assets are charged to current expenditure unless financed by long-term debt. Principal and interest charges on net long-term liabilities are included as expenditures in the period due. Fixed assets including Capital Leases, described as capital outlay to be recovered in future years, are included on the balance sheet only to the extent of the balances of the related net long-term liabilities outstanding and of the related temporary financing at the end of the fiscal year.

(d) Net long-term liabilities

Net long-term liabilities represent debenture debt issued by the Municipality of Metropolitan Toronto for school purposes and for which the School Board provides for amounts of principal and interest payable. Debentures are recorded as unmatured debenture debt in the year of sale.

(e) Reserve funds

Reserve funds represent funds appropriated for specific purposes which are charged or credited to revenue fund operations in the year appropriated or drawn down, and proceeds from the rental and sale of school sites.

(f) Under/over requisition of taxes

The difference between the net expenditures of any year and the amounts received to finance these expenditures is carried forward to the subsequent year to either increase or reduce the net revenue requirement from ratepayers.

2. TRADE PAYABLES AND ACCRUED LIABILITIES

Accrued liabilities include an amount of $11,586,000 to provide for the increase in teachers' salaries for the period September 1 to December 31, 1985, in accordance with the Collective Agreement signed on January 14, 1986.

3. NET LONG-TERM LIABILITY REPAYMENTS

The Government of Ontario wrote down school debentures outstanding at December 31, 1985 at the rate of grant on extraordinary expenditure in 1984, reducing the debenture debt charges, and the grant payable to the Board, in 1986 and future years.

Of the net long-term liabilities outstanding of $95,937,000, principal amounting to $62,410,000 plus interest amounting to $26,582,000 is payable over the next five years as follows:

DOLLARS IN THOUSANDS

Year	Principal	Interest	Total
1986	$16,015	$7,601	$23,616
1987	14,361	6,278	20,639
1988	12,933	5,196	18,129
1989	11,332	4,198	15,530
1990	7,769	3,309	11,078

4. SINKING FUND

The Sinking Fund of $11,880,000 consists of the actuarial requirement of the Sinking Fund of $11,370,000 and accumulated surplus of $510,000. Of the $510,000 an amount of $442,000 has been approved as a reduction of future sinking fund deposits by the Ontario Municipal Board.

Interest at the Statutory rate of 3% over the remaining life of the Sinking Fund Debentures will reduce the amount to be recovered from future tax levies by an additional $68,000. Interest earned in excess of 3% may, with the approval of the Ontario Municipal Board, be used to further reduce the amounts to be recovered from future tax levies.

5. DEBT CHARGES AND CAPITAL LOAN INTEREST

The revenue fund expenditure for debt charges and capital loan interest includes principal and interest payments as follows:

DOLLARS IN THOUSANDS

	Elementary	Secondary
Principal payments on long-term liabilities	$13,168	$ 7,360
Interest payments on long-term liabilities	7,871	5,087
	21,039	12,447
Interest expense (earned) on temporary financing of capital projects	147	(31)
	$21,186	$12,416

6. UNFUNDED PENSION LIABILITY

In 1980, the School Board agreed to fund an amendment to the pension plan to improve retirement benefits for eligible non-teaching employees in the public school boards of Metropolitan Toronto. The cost, as calculated by independent actuaries, is being funded over fifteen years in annual amounts of $2,385,000 from 1980 to 1982 inclusive, $2,670,000 from 1983 to 1984, and $2,675,000 thereafter.

7. SICK LEAVE CREDIT GRATUITY

Under the sick leave credit gratuity plan, employees may become entitled to a cash payment upon retirement, upon becoming totally and permanently disabled, upon death, or in certain boards upon termination. The gratuity is based on one-half of the employee's accumulated unused sick leave credits and the statutory limits. The amount of the retirement gratuities paid in 1985 was $8,150,000 and in 1984 was $6,902,000.

It is estimated that the contingent liability associated with the accumulated sick leave credits for all employees amounted to $108,658,000 at December 31, 1985. No provision has been made for the contingent liability with respect to the sick leave credit gratuity plan.

8. SUBSEQUENT EVENT

Beginning in 1986 The Metropolitan Toronto School Board, in cooperation with the six Boards of Education in the metropolitan federation, has undertaken to self-insure against property, auto and liability risks due to the conditions in the insurance market. The Board has indicated its intention to appropriate, in 1986, approximately $5,000,000 from the Revenue Fund to cover any losses which might arise.